ESTRA S.p.A.

Consolidated financial statements as at 31 December 2016

Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010

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Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010

(Translation from the original Italian text)

To the Shareholders of ESTRA S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of ESTRA Group, which comprise the income statement, the income statement and other comprehensive income, the statement of financial position as at 31 December 2016, the statement of changes in consolidated shareholders' equity, the statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of ESTRA S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 2.950.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ESTRA Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 9 of Legislative Decree n. 38, dated 28 February 2005.

Other aspects

The consolidated financial statements present comparative information in respect of the preceding period prepared in accordance with International Financial Reporting Standards that derive from the financial statements as at 31 December 2015 prepared in accordance with the Italian law. The explanatory note "Transition of to international accounting standards IAS/IFRS" outlines the effects of the transition to the International Financial Reporting Standards as adopted by the European Union and includes information required in IFRS 1.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of its corporate governance section, solely for the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 2, letter b), with the consolidated financial statements. The Directors of ESTRA S.p.A. are responsible for the preparation of the Report on Operations and of its corporate governance section in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 2, letter b), presented in the specific section of the Report on Operations, are consistent with the consolidated financial statements of ESTRA Group as at 31 December 2016.

Florence, May 9th, 2017
EY S.p.A.
Signed by: Lorenzo Signorini, partner

This report has been translated into the English language solely for the convenience of international readers.

E.S.TR.A. S.p.A.

Registered office in Via Ugo Panziera, 16 – 59100 PRATO (PO)
Share Capital Euro 205,500.00 fully paid
Tax code and entry number in the Register of Companies of Prato 02149060978,
Rea no. 0505831

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

OFFICERS

Board of directors

Chairman Francesco Macrì
CEO Alessandro Piazzi
General Manager Paolo Abati
Director Roberta De Francesco

Board of Statutory Auditors

Athos Vestrini *(Chairman)*
Saverio Carlesi
Patrizia Berchiatti

Independent Auditors

EY S.p.A.

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MANAGEMENT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

1. SUMMARY OF FINANCIAL YEAR 2016

The Estra Group closes financial year 2016 with revenues for Euro 1,044.41 million (+ 13.3% over the previous year), a Gross Operating Margin for 86.6 million euros (up 45% compared to 2015, excluding the non-recurring gains arising from the sale of the gas distribution plant of the Prato Municipality). Net income for the Group was 15.1 million euros. Net financial debt as of 31 December 2016 amounted to Euro 203.4 million, increased for about Euro 37.4 million.

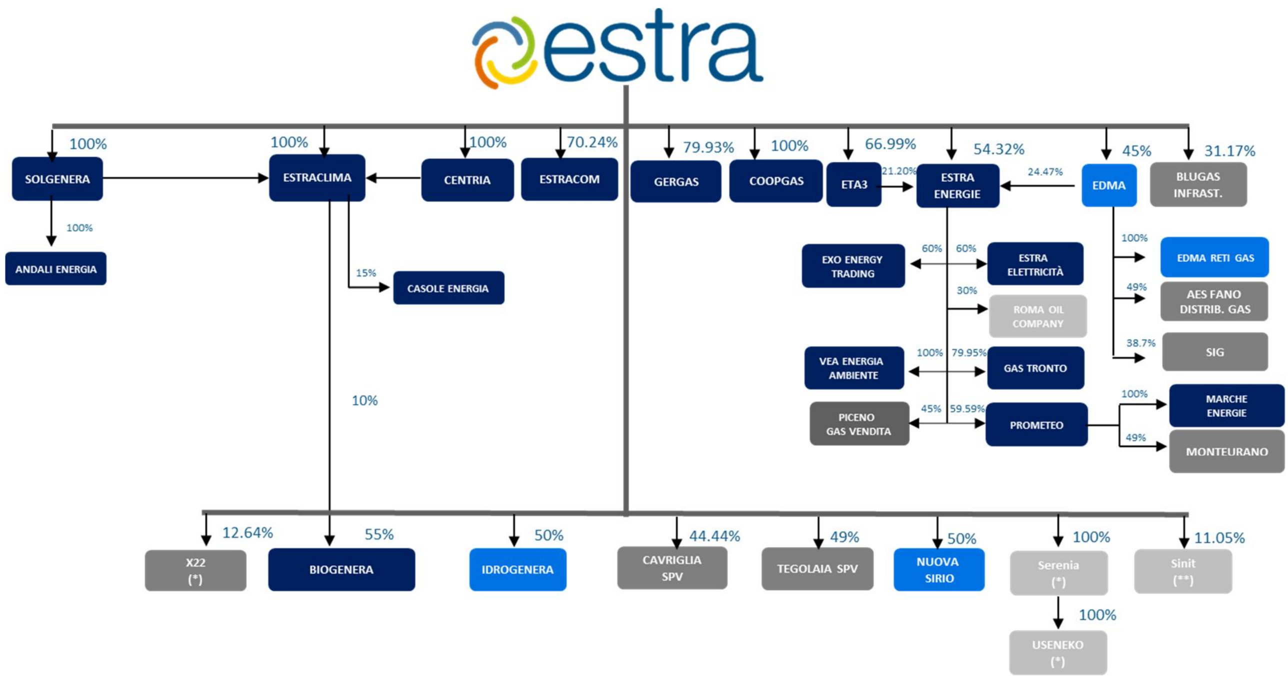
In 2016, Estra has faced a remarkable growth through industrial operations and commercial development policies. In particular, the Group has concluded two significant M&A transactions with Coopgas and Prometeo companies: in February, Estra Group signed an agreement with CPL Concordia Company for the acquisition of 100% Coopgas (a gas and electricity sales company). In April, Estra Group gained control, through Estra Energie Srl, of the sales company Prometeo SpA (59.59%), the main subsidiary of EDMA operating in the sale of gas and electricity, with the consequent entry of EDMA into Estra Energie S.r.l. share capital (24.47%), through the conferment of the investment. Thanks to these operations and because of the implementation of organic growth strategies across the country, Estra Group has reached an overall share of nearly 750,000 customers, who place it among the top ten Italian utilities in energy sector.

Over the course of the year, in order to tackle the competitiveness of ATEM's competitions, the Group has started to seek financial resources through a new bond of Euro 80 Mln., with the aim of optimizing its flexibility and financial strength.

In 2016, the Group has developed particular contractual forms focused on energy efficiency and has confirmed the development strategies in the telecommunications sector, realized through fiber optic cabling in different territories.

During the year, Estra Group's participation in the contests organized by Infratel for the construction and management of ultra-wide bandwidth in the white areas of the Tuscany and Marche region is also noted.

2. CORPORATE STRUCTURE AND INFORMATION



Note
(*) Companies in liquidation

Companies fully consolidated

Companies under common control consolidated with the equity method

Associated companies consolidated with equity method

Companies excluded from consolidating scope

The Group is structured according to a model that involves the Parent Company with coordination and centralized management of corporate functions (strategic and organizational planning, financial and budget planning, marketing objectives and policies, policies, strategies and human resource management practices, Planning of production, planning and control of business management) and companies operating in the following operating sectors:

- Natural gas distribution: technical and operational management of natural gas distribution networks and liquid propane gas, which the Group market.
- Sale of natural gas and electricity: sale on the wholesale and retail markets of methane gas and electricity. Support for business areas is ensured by gas and electricity supply, dispatching, storage and logistics, portfolio optimization.
- Natural gas trading
- Other sectors: the technical and operational management of telecommunications networks and their marketing, the production of electricity from renewable sources with particular reference to photovoltaic, wind and biomass; Management of heating systems owned by third parties (heat management services) and facility management activities.

3. SIGNIFICANT EVENTS IN 2016

3.1 ACQUISITION OF CONTROL IN PROMETEO S.R.L.

It should be noted that since 2014 financial year, the Estra Group has started an important aggregation project with the Multiservizi S.r.l partner of Ancona which saw the formation of the company EDMA S.r.l., an industrial subject with objectives of consolidation and development in the Adriatic area in terms of gas and electricity sales, mainly through the subsidiary Prometeo SpA, and gas distribution, mainly through the subsidiary EDMA Reti Gas Srl.
EDMA S.r.l., 45% owned by Estra S.p.A. and 55% by Multiservizi S.r.l., on the basis of statutory provisions and shareholders' agreements, qualifies as a jointly controlled company by the two shareholders.

During the financial year 2016, the aggregation project had further developments that, as described below, led to the acquisition of control in the sales company Prometeo SpA by the Estra Group through Estra Energie Srl,. At the same time there was the entry of Multiservizi Srl through EDMA into the share capital of the subsidiary Estra Energie.

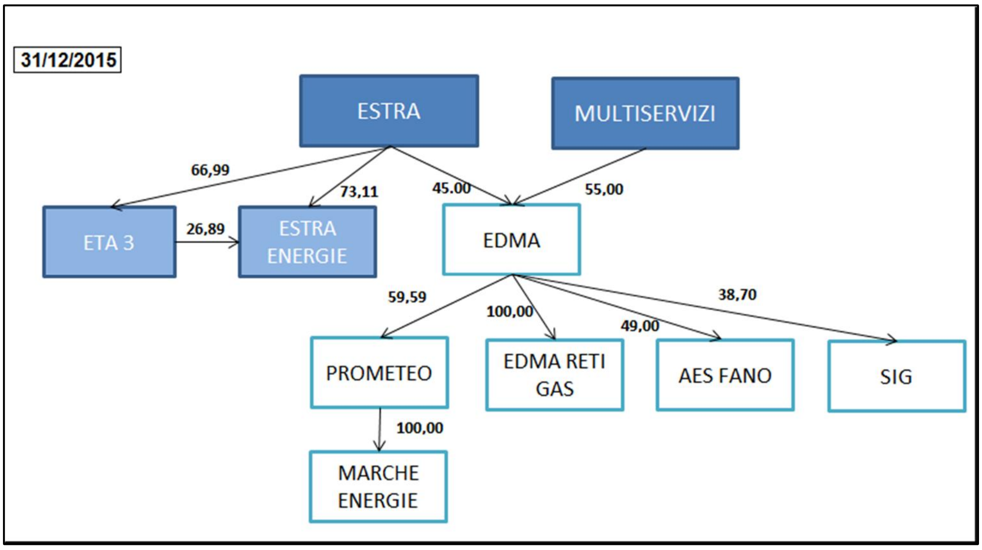
Prometeo S.r.l. carries out gas and electricity sales mainly in the Marche region and in the regions of Abruzzo, Umbria, Molise, with about 162 thousand gas customers and 37 thousand customers of electricity. In 2016, the volumes of marketed gas amounted to approximately 230 million cubic meters, and the quantities of electricity sold were 150,000 Mw.

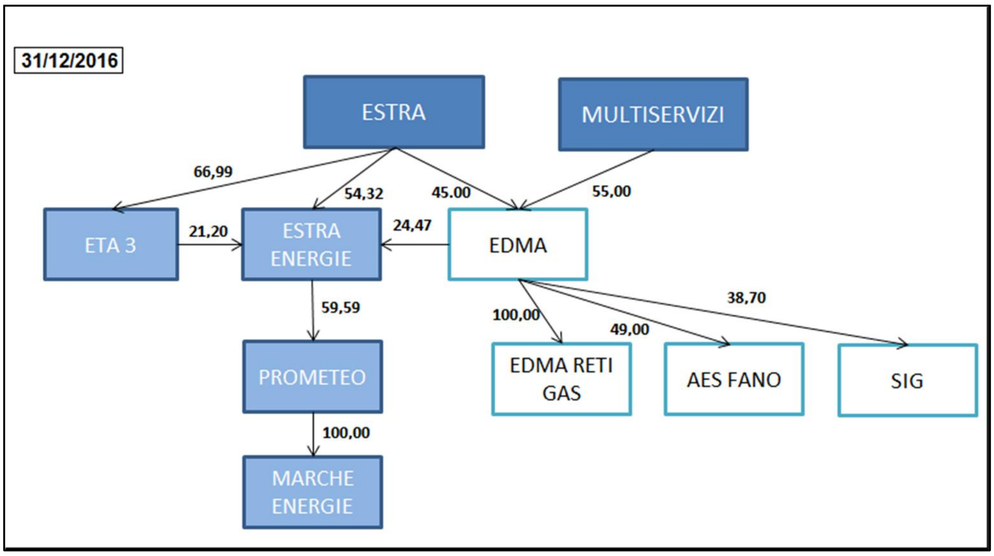
The transaction was carried out through the following corporate transactions, completed in April 2016:

a) Increase in the share capital of Estra Energie reserved to EDMA S.r.l. from Euro 13,750,000 to Euro 17,438,212, by issuing a nominal value of Euro 3,688,212 with a surplus of Euro 30,871,008 made by EDMA through the conferment of shares representing 59.59% of Prometeo S.p.A. at the value of euro 34,559,221, as per appraisal prepared for and for the effects of art. 2465, 1st paragraph of the Civil Code.
   Following the increase, EDMA S.r.l. has therefore become a member of Estra Energie at 21.15%;

b) Sale by Estra S.p.A. to EDMA S.r.l. of an additional share capital of 3.32% of Estra Energie at a price of Euro 5,430,000, resulting in an increase in the holding held by EDMA in Estra Energie from 21.15% to 24.47%;

The chart below shows changes occurred in the Group's structures as of 31 December 2016 compared to 2015, as a result of the aforementioned transactions:





As a direct consequence of transactions showed above:

a. Prometeo (and its subsidiary Marche Energie) passes from a subsidiary of EDMA (a company under common control and valued using the equity method), to a subsidiary of Estra Energie S.r.l. (a subsidiary of Estra), thus falling within the perimeter of fully consolidated companies with a Group holding of 47.40%. In the consolidated financial statements of ESTRA as of 31 December 2016, consolidation date was assumed to be the 31 March 2016 as close to the date for the acquisition of control, therefore the consolidated financial statements included only the income statement of the last nine months of the subsidiary;

b. Estra Energie remains a subsidiary of Estra fully consolidated with a percentage of direct and indirect Group holding that decreases from 91.12% to 79.54%.

The accounting effects of the business combinations are described in paragraph "7. Business Combinations and Acquisitions of Minority Interest ".

3.2 ACQUISITION OF COOPGAS S.R.L.

Following the award of tender, as of 1 February 2016 Estra S.p.A. acquired the 100% shareholding in Coopgas S.r.l. share capital, headquartered in Concordia (MO), from CPL Concordia Società Cooperativa, at a price of Euro 18,170 thousand.

The company holds about 45,000 natural gas customers and 2,000 electricity customers mainly located in 3 regions of South Italy: Campania, Sicily and Calabria.

The acquisition has a strong industrial value and allows the Group to strengthen its territorial presence in southern Italy.

The subsidiary has been fully consolidated in these consolidated financial statements, with effect from the beginning of the financial year. Accounting effects of the business combinations are described in paragraph "7. Business Combinations and Acquisitions of Minority Interest"of the notes to the financial statements to which reference is made.

3.3 OTHER ACQUISITIONS IN GAS SALES SECTOR

The following acquisitions of non-controlling interests are reported in companies operating in the gas-trading sector:

- Acquisition by Estra Energie S.r.l. in August 2016 of a 45% share in Piceno Gas Vendita S.r.l., headquartered in Ascoli Piceno (AP), at a price of Euro 6,323 thousand. The company carries out natural gas sales to approximately 25,000 customers in about 37 municipalities in the Province of Ascoli Piceno and Teramo.
  As evidenced in the significant events after the close of the financial year, on 30/03/2017 Estra Energie acquired control of the company following the purchase of an additional 45% share at the same price as the first share;

- Acquisition by Prometeo S.r.l. in July 2016, of the 49% of Monte Urano Gas, based in Monte Urano (FM) for a price of Euro 1,071 thousand. The company holds approximately 3,000 customers in the field of gas, electricity and heat management in the province of Fermo.

3.4 ISSUE OF BOND

On 28 November 2016, E.s.tr.a S.p.A. successfully completed the issue of a non-convertible bond loan represented by bonds listed on the regulated market managed by the Irish Stock Exchange, where the relative prospectus has been filed.

The unsecured and non-convertible bond of Euro 80 million is guaranteed by the subsidiary Centria S.r.l., wholly subscribed by institutional investors outside the United States of America. Bonds, issued at a price of 98.5% of nominal value, are unrated, have a duration of 7 years and a fixed coupon of 2.45.

The issue, which is instrumental in financing the Group's operations, represents a further step towards diversifying sources of funding and contributes to the improvement of the financial structure, the reduction of capital cost and the lengthening of the average duration of the debt.

3.5 REORGANIZATION OF SUBSIDIARIES OPERATING IN THE RENEWABLE ENERGY SECTOR

The financial year 2016 was characterized by a large process of rationalization and simplification of renewable energy companies for the purpose of concentrating on a single subject (Estra Clima Srl, 100% controlled by Estra) the ownership and management of production facilities in renewable energy sector owned by companies directly or indirectly owned by Estra.

Specifically the process has foreseen:
- The release of Estra from Nova E S.r.l. following the acquisition by Solgenera Tre S.r.l. of 12 photovoltaic plants (partly owned by the seller and partly in financial leasing, redeemed by the Group before the end of the

financial year) and of the 100% stake in Venticello S.r.l. and 15% in Casole Energie S.r.l. and of the split in Nuova Sirio S.r.l. of the ownership of three photovoltaic plants;
- The transfer to Estra Clima of the business lines relating to photovoltaic plants owned by Centria S.r.l., and Solgenera S.r.l.;
- The merger by incorporation of Solgenera Tre S.r.l. and Venticello S.r.l. in Estra Clima S.r.l.;
- The sale to a third party of the holding held by Estra in Montedil S.r.l., considered no longer strategic.

The accounting impacts on the Group's consolidated financial statements as of 31 December 2016 are insignificant. Those are mainly represented by the acquisition of tangible assets for Euro 3,237 thousand, payables to leasing companies for Euro 2,338 thousand, risk provisions of Euro 226 thousand, net working capital of Euro 407 thousand acquired by Nova E Srl and the disposal of equity investments (Montedil S.r.l.) for Euro 750 thousand.

3.6 MECHANISM FOR RENEWAL OF LONG-TERM PROVISIONS CONTRACTS (APR)

In 2013, the Authority for Electricity, Gas and Water Systems (AEEGSI) reformed the structure of gas tariffs for protected customers, referring them to the Dutch TTF (spot price) hub and introducing, with Resolution 447/2013/R/ gas, an optional mechanism for the promotion of renegotiation of long-term supply contracts called the APR mechanism for the three thermal years 2014/2016.
Exercise of the option of membership has determined the recognition by AEEGSI in favor of Estra Energie S.r.l. of a compensation equal to Euro 3,973 thousands, a gain recognized in the year 2016 in "Other income”.

3.7 LITIGATION PROCEDURE ANDALI ENERGIA S.R.L./TERNA – RETE ELETTRICA NAZIONALE S.P.A.

During the financial year 2016, the Group, trough the subsidiary Andali Energia S.r.l. promoted an arbitration procedure against Terna – Rete Elettrica Nazionale Spa ("Terna"), currently pending and awaiting the outcome of the hearing on the admissibility of the means of investigation, concerning the request for termination of the interconnection contract for Terna's failure to comply with the compensation for damages in favor of Andali. This action was carried through the subsidiary Andali Energia Srl, the owner of the Unauthorized Authority for the construction of a 36 MW wind power plant in Andali (CZ) municipality.

The underlying legal issue concerns the fulfillment of multiple obligations arising from the connection contract and, in particular, the delay in the construction by Terna of an electric station at Belcastro's site. The completion would have to take place in good time to allow Andali to connect the wind farm at the national grid, in compliance with the terms of the single permit (April 2017) and in order to safeguard the tariff obtained, due in May 2017.

During the arbitration, as result of Andali's application, the parties proceeded with the ritual deposit and exchange of the three investigative memos. Now they are waiting for the Board's order to admit the instructors requested by the parties.

Andali's claims for damages amounted to Euro 8,535 thousand as well as Euro 4,410 thousand for the guarantee provided to the GSE where these, in the wake of the outcome of the litigation in progress, should proceed with the relevant exclusion. With regard to the cessation of profit, Andali's claim for damages amounts to Euro 23,613 thousand. Terna opposed these conclusions and at the same time filed a counterclaim against Andali, amounting to Euro 7,153 thousand, to which Euro 1,700 thousand per year should be added per year of delay in the completion of the work.

Due to the litigation in progress, the subsidiary is activated in the request of i) extension of the authorization to the Calabria Region and ii) suspension of the guarantee revocation against the GSE Outcomes are not yet known at the date of preparation of this document.
Conciliatory hypotheses with Terna are being evaluated, which are also uncertain at today's date.

It is useful to remember that in the previous financial statements, the difficulties of realizing the plant within the deadlines had prompted the Directors to devalue the full value of the intangible assets recorded, in respect of the authorization and costs of design and development of the wind farm. Consequently, a provision was accrued in order to cover the risk of non-recoverability of costs for work and pre-construction works already underway at the end of the year.

The Directors consider the reasons of the subsidiary to be valid and legitimate the claims made by the subsidiary in the arbitration against Terna and the suspension of the guarantee for the GSE, as a result of these claims. Nevertheless, in the present impossibility to foresee the outcome of these claims, the write-downs and provisions made in the previous financial year have been retained in the present consolidated financial statements, providing for a further increase in the provision for the risk to cover the risk of suretyship. As described in the notes to the financial statements, the provision for risks has been increased, based on the estimates up to 31 December 2016 of Euro 2,251 thousand.

4. REFERENCE SCENARIO

4.1 MACROECONOMIC ENVIRONMENT

In 2016, some potentially destabilizing historical events have characterized the world's geopolitical situation, including the outcome of the UK referendum and the continuing conflict in the Middle East, which, however, did not lead to a halt in GDP growth world level. Economic growth has seen signs of acceleration mainly due to the recovery of emerging countries, whose situation positively influences the dynamics of international trade. In particular, the price dynamics was more sustained in India and especially in Brazil and Russia, while it was more contained in China. Indeed, 2016 began with concerns over the size of China's economic slowdown and its impact on globality: this is the sixth year in which this country's economic growth slowed down, reaching the minimum of the last 26 years; Despite this, GDP grew by 6.7%.

In advanced countries, the expectations of acceleration continue to be partly uncertain. In the United States, in particular, the economic policies of the new administration are not yet defined in detail: an expansive effect at the time of difficult quantification may result from the adoption and dissemination of commercial restriction measures leading to growth of domestic demand. In the third quarter of 2016, however, the US economy recorded the best result over the last two years, marking a wider growth than previously estimated and accelerating considerably over the past few months. A positive contribution comes from net exports and consumer spending for American households, while residential investment declined again, continuing the trend of 2015.

Japan represents the world's third-largest third-world economic power in terms of GDP behind the United States and China, and despite the long stagnation the country has been experiencing since the 1990s, in 2016, moderate expansion of economic activity, Favored by the trend of exports and an increase in Asian demand for electronic products, compared to a still weak domestic demand.

As far as the European economic trend is concerned, there is a substantial growth rate, with uncertain tendencies for public finances, for the employment market and for the internal political climate. Eurostat data reveals that at the end of 2016 the economic growth of the euro area is stable, with + 0.4% of GDP in the fourth quarter to the previous one and + 1.7% on an annual basis, despite an international context less favorable than expected: the recovery in domestic demand compensated for the slighter dynamism of the foreign one.
The English vote on the EU has had little direct effect, but is beginning to affect trade flows through sterling devaluation. In the United Kingdom, GDP growth in the third quarter was sustained by robust consumption and the large contribution of net exports, with investments that showed a good holding.

European instability is demonstrated by the different trend that has characterized two countries such as France and Germany demonstrates. Specifically, Germany, which represents the main trading partner for Italy, had a peak above average growth due in particular to the domestic demand driven by household consumption (+ 2.2%), but above all to the public sector (+ 4.2%). Otherwise, France suffered the stagnation of household consumption and the decline in corporate investment.

The Italian scenario looks moderate and below the European average due to the decline in demand. However, the public debt situation has improved and GDP in 2016 is up by 0.9%. This is the most significant increase from 2010 to today, which exceeded the expected government expectation of 0.8%. Taking into account the trend of industrial production, that of electricity and freight transport, all up, and business confidence indicators, which are high, in the fourth quarter of 2016, GDP has risen to a ponderable pace Around 0.2% over the prior period with an economic activity that was backed by the relaunch of investments. After a steady initial trend, the product returned to grow during the year. Net government debt, measured in relation to GDP, was -2.4%, compared with -2.7% in 2015 and therefore improved.

Monetary Policy

With regard to the overall monetary policy, in the Eurozone, inflation remained almost nothing until mid-year, but in the second half of the year it started to slow down, fueled by the recovery in oil prices. The Central Bank of the Advanced Countries maintained liquidity at interest rates close to zero, while the Fed suspended the rise in official rates for uncertainties on the international scenario and for the first nine months of 2016. They remain at the lowest and in some cases the rates on the money market are further reduced, in a context that is still very accommodating by the European Central Bank. On all major euro area maturities, yields remain negative and an unfavorable picture for the money sector remains for several months. Bond rates are very low when not negative, but also at a risk of gradual rise in a scenario of continued economic recovery. In addition to low inflation, the euro area is still struggling with high unemployment especially in Italy and France. The impact on market provoked by the referendum has been contained thanks to the intervention of the British Central Bank and the ECB, but according to analysts, we must not underestimate the weakness of the pound and the effects of ' Uncertainty linked to the duration of the London divorce negotiations from Brussels.

Energetic market performance

In the course of 2016, the international oil markets showed an unstable trend. The Brent Dated oil price has risen below $ 30 a barrel ($/Bbl) from January to December 53 (+ 103%), averaging $ 44 a year Bbl, lower than 18% compared to 2015. However, 2016 is expected to be another year of low prices, with obvious difficulties in predicting how and when the current reflective phase will be depleted.

The year was characterized by various attempts by producer countries of price stabilization, the agreement was reached in December in Vienna. The agreement, covering 27 countries, between OPEC and non-OPEC has set a production limit of 32.5 million barrels a day and has led to an increase in oil prices (+ 16.6% in December compared with November).

Subsequently, beginning with the end of August, expectations for a hypothetical agreement on production levels between OPEC and non-OPEC countries at the time of the World Forum in Algiers in September contributed to price growth. The agreement, covering 27 countries, finally reached at the end of November and formalized in Vienna in December, set a production limit of 32.5 million barrels per day, leading to a sharp increase in oil prices (+ 16.6% in December compared to November).

Looking especially at Italy, oil has once again been the first source to meet energy demand, with a share of just over 36% followed by gas (about 35%) and renewables (17%) . The gas showed a sharp contrast to other sources as a result of the stop of the French nuclear reactors, which have pushed up national thermoelectric production in the second half of the year. Overall, fossil fuels (coal, natural gas and petroleum) continued to supply about 79% of the total, an even bigger share, though less than 85% in 2010.
In 2016, the Italian energy bill, ie the cost of supporting the country to supply abroad, thanks to the crude oil crunch, was $ 24 billion, saving $ 10.9 billion in 2015 (-31%). Bills, to the lowest since 1999, also the oil bill, down from 16.2 to 12 billion (-26%).

Among the traditional sources, the decline in coal (-8.5% compared to 2015) contrasts with the performance of gas plant sales, which, starting from the historical low of 2014, show growth for the second consecutive year by about 20%.

Regarding the electricity market, in the year of 2016, the lowest purchase price of energy (PUN) recorded in its history started in April 2004: the downturn is attributable to the low demand and the analogous performance of quotations in the main International energy markets. All this despite the fact that the IMP received European commodity prices as well, strong pushes triggered by the detention of certain French nuclear groups.

In 2016, the average natural gas price at PSV was 15.85 EUR/MWh, down 28.4% compared to the average value of 22.15 EUR/MWh in the whole of 2015.

4.2 OVERVIEW ON RELEVANT ITALIAN MARKETS

Natural Gas Market

Demand for natural gas			
Natural gas (Ml/cm)	Financial year 2016	Financial year 2015	% Change
Imports	65,029	60,806	6.6
Domestic production	5,567	6,451	- 13.7
Delivery from storage	10,988	10,565	3.7
Total issued	81,584	77,823	4.6
Services and domestic use	31,434	31,426	0.5
Industrial use	13,357	12,767	4.4
Thermoelectric use	23,336	20,728	12.1
Net import/export balance and system consumption*	2,269	2,025	19.3
Total demand	70,396	66,947	4.9

Source: GME data processing

*includes linepack variation, losses, consumption and unaccounted for gas.

In 2016, natural gas consumption, up 4.9% over the previous year, reached 70.4 billion cubic meters, confirming the trend reversal that in 2015 had stopped a long descending phase.

To support recovery, mainly the consumption of the thermoelectric sector, driven by both the reduction in the national renewable supply and the decline in the imports of electricity from abroad, accounted for + 12.1% and amounted to 23 billion cubic meters.

Industrial sector consumption interrupts a long, regressive phase, rising to 13.4 billion cubic meters with the best performance over the last seven years (+ 4.4% compared to 2015).

On the other hand, civil sector consumption is stable, which stands at the levels of the previous year.

On the supply side, national production declined to 5.6 billion cubic meters (-13.7%), while natural gas imports amounted to 65.0 billion cubic meters, up 6.6%. Disbursements from storage systems go up to the highest levels of the last decade with about 11 billion cubic meters (+ 3.7%).

Gas regulated gas markets managed by GME totaled 47.5 million MWh (49.2 million MWh in 2015).

The steady recovery in spot market exchanges, following the new legislation in force since October 2016, which initiated the transitional phase of the new balancing system and outlined a gradual and preliminary step to a second phase. It includes the redefinition of the design of the natural gas market (MGAS), in which, in addition to the day ahead market (MGP-GAS), the infra-day market (MI-GAS) and the forward market (MPG) and the market for the regulation of the quantities of storage gases (MGS), organized - in a transitional manner - within the Platform for the Gas Balancing (PB-GAS).
The gas distribution market is still stalling and ready for ATEM racing: there are still few announcements coming out of the MISE calendar. In addition, most of these have been postponed, some withdrawn or frozen, and often appealed. By the end of 2016, the situation was:

- 3 calls revised by AEEGSI waiting for publication: Rome I, Forlì-Cesena. Belluno (published at the beginning of 2017);
- Only 5 are ATEMs with published announcement and open procedure: Cremona 2 and 3, Milan I (the only bidding concluded with the submission of bids), Torino 2, Venezia I and Udine 2;
- 6 tenders published in a restricted procedure: Lodi I, Monza and Brianza I, Perugia 2, Varese 2, Udine I and 3;
- 5 withdrawn or suspended announcements: Alessandria 2, Biella, Massa Carrara, Monza and Brianza 2, Turin 3.

The effects of reviewing the AEEGSI WACC tariff remuneration, for the regulatory period 2016 - 2020, affected the sector in the year. The gas distribution service WACC dropped to 6.1% (against 6.9% of the previous regulatory period) and gas measurements is 6.6% (compared to 7.2% in the previous period).
In addition, 2016 saw numerous industrial aggregation operations, both in terms of financial strength and technical strengthening among industry firms. Aggregations are followed by some search procedures for industrial partners.

Electricity market and renewable sources

The demand for electricity in Italy in 2016 was 310.3 TWh, a decrease of 6.6 TWh, a 2.1% reduction compared to the previous year (preliminary data Terna).

Demand for electricity			
Electricity (Twh)	Financial year 2016	Financial year 2015	% Change
Net production:	275.6	272.4	1.2
Thermoelectric	187.5	182.9	2.5
Hydroelectric	42.3	46.5	- 8.9
Photovoltaic	22.5	22.6	- 0.2
Wind	17.5	14.7	18.7
Geothermal	5.9	5.8	0.7
Net import/export balance	37.0	46.4	- 20.2
Pumping consumption	- 2.4	- 1.9	27.0
Total demand	310.3	316.9	- 2.1

Source: Terna preliminary data processing 2015 and 2016, gross of network losses

National production covered 88% of demand, marking a recovery of 2.6% over 2015 (85%). Net sales, considered in absolute terms, showed an increase, reaching 275.6 TWh (+ 1.2% vs. 2015).

The analysis of the individual components of national production shows a drop in hydroelectric power (-8.9%), however less marked in the previous year and offset by higher thermoelectric production (+ 2.5%).

A positive trend compared to the previous years is reflected in the production of wind power plants (+ 18.7%), which offset the modest reduction in photovoltaic systems (-0.2%). The net import / export balance was characterized by a decrease of 9.4 TWh (-20.2%) due to lower trade with France.

The reduction in electricity demand in 2016 is coincided with the price of energy with a downturn in PUN. Following the increase recorded in the previous year, the IMP quotation for the year under review stabilized at an average level of 42.7 Euro / MWh, -18% compared to 2015 (52.31 Euro / MWh).

Energy services and energy efficiency markets

At the climate conference launched by the UN in 2015, which led to the c.d. The Paris Agreement followed in November 2016 the Cop 22 Climate Conference in Marrakech, which involved 197 countries with the aim of defining a global pollution reduction plan. Cop 22, in continuity with the decisions taken the previous year, sanctioned the definition by December 2018 of the Implementation Regulation of the Paris Climate Agreement. This document envisages monitoring the commitments made by each country and establishing a Green Fund ($ 100 billion a year) to help developing countries fight global warming.

Against this background, Italy intends to adopt a strategy that integrates the environment, climate, energy and a broad-based energy efficiency focus. The new national energy strategy, under development, will revive the previous SEN 2013, taking back three of the main axes: competitiveness, environment and security.

In recent years, Italy has put in place a virtuous path that has enabled it to achieve significant results. In fact, a whole series of tools to promote energy efficiency (building and construction standards), economic instruments (tax deductions and heat accounts), hybrid instruments (TEEs or White Certificates) and consumer information (energy labels).

Thanks to efficiency promotion and incentive policies, more than 32% of energy savings targets set for 2020 by 2012/27/EU have been achieved by 2015.

Among the sectors that contributed most to the achievement of this result are the residential (61.1% of the 2020 target) and industry (30.8% of the 2020 target).

Annual energy savings achieved by sector for the period 2011-2015 and expected at 2020 (final energy, Mtep)

Sector	Legislative Decree 192/05	White certificates	Tax deductions	Ecoincentives and EU regulations	Other measures	Energy savings		Target achieved (%)
						Achieved in 2015	Expected at 2020	
Residential	0.69	0.47	1.07	-	0.02	2.24	3.67	61.1%
Tertiary	0.04	0.10	0.01	-	-	0.15	1.23	12.2%
Industry	0.08	1.47	0.03	-	-	1.57	5.10	30.8%
Transport	-	-	-	1.01	0.04	1.05	5.50	19.1%
Total final energy	0.80	2.04	1.10	1.01	0.06	5.01	15.50	32.3%

Source: Annual report of energy conversion efficiency 2016 - Enea

A number of regulatory and management changes characterized the year 2016: those were principally related to the Energy Efficiency Market (TEE) market. In particular, the GSE is given greater information requirements and the possibility of taking into account the bilateral prices in defining the tariff recognition, excluding the price signal of TEEs in bargaining. The Manager must make known and publish on his website, the amount of the white certificates exceeding the national quantitative obligation not canceled at the end of the audits. The term considered is on both annual deadlines within which the obligations under which the undertaking can meet the obligations themselves; expressly provide information on the ways in which projects eligible for the TEE mechanism can be realized and to account for the savings they can achieve.

Between January and December 2016, the GSE recognized 5,517,891 TEEs.
The total number of TEE traded in the first half of 2016 on the market organized and managed by GME was 2,730,052.
During the semester, 27 market sessions were organized.
The summary data of market sessions for the first six months are as follows:

Product	Exchanged volumes (n. TEE)	Total value (€)	Minimum price (€/TEE)	Maximum price (€/TEE)	Average price (€/TEE)
Type I	957,869	119,810,304.02	105.00	154.90	152.08
Type II	1,358,688	170,983,049.36	105.00	155.00	125.84
Type II - CAR	195,626	23,918,539.81	106.00	151.95	122.27
Type III	217,869	27,665,912.31	105.80	151.95	126.98
Total	2,730,052	342,377,805.50	150.00	155.00	125.41

Source: Biannual monitoring report - First semester 2016 - by GME

The total number of TEE traded in the second half of 2016 on the market organized and managed by GME is equal to 2,811,819.
During the semester, 22 market sessions were organized.
The summary data of market sessions for the second semester is as follows:

Product	Exchanged volumes (n. TEE)	Total value (€)	Minimum price (€/TEE)	Maximum price (€/TEE)	Average price (€/TEE)
Type I	835,055	136,112,861.70	126.50	245.00	163.00
Type II	1,157,566	185,796,258.68	125.00	249.00	160.51
Type II - CAR	388,833	64,605,308.53	128.00	244.00	166.15
Type III	430,365	88,750,236.67	128.00	250.00	206.22
Total	2,811,819	475,264,665.58	125.00	250.00	169.02

Source: Biannual monitoring report - Second semester semester 2016 - by GME

The performance of the Energy Efficiency (TEE) prices in the period January-December 2016 has seen a significant increase, reaching peaks of 250 Euro / TEE and still keeping abundantly above 100 Euro / TEE: a growing trend Which has impacted on the definitive tariff contribution of 2016.

With regard to the electric mobility sector, in 2016 800,000 cars (+ 40% compared to 2015) were sold worldwide with an increase in total electric vehicles (BEV) - 63% of the total or 60% last year. In Italy, sales amounted to 2,560 units, worth 75 million euros, or 0.1% of the entire car market, without significant growth and counter-trend compared to 2015. However, campaigns are in progress Promotional initiatives and government initiatives for the consolidation of environmentally sustainable means.

In 2016, industry operators and major utilities promoted electric mobility projects, including highway refueling stations, city power station installations, apps, and autonomous charging management systems.

Telecommunication market

In 2016 the telecommunications services sector in Italy, driven by investments in digital transformation and infrastructure construction, showed signs of consolidation of the resumption already started in 2015, thus finally coming out of the crisis. A mirror of this recovery is the increase in spending on innovation projects and connectivity services.

The framework of the guidelines set by the European Digital Agenda and in view of developing the national economy and digital culture would reduce, the gap that still distinguishes Italy from the major European countries. In this context, the National Broadband Plan launched by the government in 2015 has envisaged the release of two calls for the granting of a concession for the construction and management of ultra-wide bandwidth infrastructure in the White Areas (so-called market failure areas). Implementation is envisaged following the signing of the Program Agreements and Operational Agreements between the MISE and the Regions concerned. These trusts are an important milestone in the implementation of the "Italian Broadband Strategy", leading to the commitment of 91.8% of the total resources available to the white areas plan.
The restricted calls for tenders, managed through a telematics platform, saw the involvement of white areas identified in 17 Regions, divided into functional lots. The first, issued in June 2016, worth 1.4 billion, has affected the following lots: Abruzzo and Molise, Emilia Romagna, Lombardy, Tuscany, Veneto; The second call, published in August 2016 for a total amount of 1.2 billion, involved the regions of Piedmont, Valle d'Aosta, Liguria, Friuli Venezia Giulia, Umbria, Marche, Lazio, Campania, Basilicata, Sicily and the Province Autonomous Province of Trento.
Not only industry players but also multiutilies and energy players, such as Estra, Acea Illuminazione and Enel Open Fiber, attended qualification announcements.
Looking at the trend of the TLC chain as a whole, the Italian market is worth over 25 billion euros and is driven by Digital Enablers (+ 16%) - Cloud, Big Data, IoT - that enable business transformation in Businesses, especially medium and large, acting as anchors for the cutting edge of digital transformation.

In 2016, the trend towards migration of fixed-line telephony customers to the mobile business continued, as well as towards alternative communication solutions (such as social network chats), favored by the use of the Internet and broadband penetration.

As far as fixed-line broadband access is concerned, Agcom data shows an increase of 582 thousand units on an annual basis over the year before the same month of 2015 (Report No. 3/2016 - Agcom). Total access to the fixed broadband network exceeds 15.4 million units, with an increase of 630,000 units per year, while the Next Generation Access (NGA) lines are over two million (+720 thousand from the beginning of the year) year). Broadband speeds above 10 Mbit are 48.5% of the total, of which 12.85 is represented by lines over 30Mbit.

In 2016, the estimation of the proportion of households accessing the broadband Internet with a preference for fixed connection (ADSL, Fiber optic, etc.) rose to 67.4% from 64.4% in 2015. It is stable around 98% of businesses with at least 10 people using the Internet, while mobile broadband connectivity ranges from 63.3% to 63.8% (60.0% in 2014).

On the front of mobile, the trend of strengthening Mobile Virtual Network Operator persists. In December 2016, the traditional sim (voice + data) dropped by 2.2 million units, while the sim "M2M" (+2.6 million) grew.

Looking at the trend of data traffic, the number of Sims with internet access has risen by 9.7%, reaching over 53 million units.

5. ALTERNATIVE PERFORMANCE INDICATORS

The ESTRA Group uses alternative performance indicators (IAPs) to better transmit information on the profitability of the business it operates, as well as on its financial position and financial position. In accordance with the guidelines published on 5 October 2015 by the European securities and markets (Esma/2015/1415), please find explained below the content and the criterion of determining the IAPs used in this financial statements.

Gross operating margin (hereinafter, sometimes Ebitda) is an indicator of operating performance and is calculated by adding "amortization, provisions and write-downs" to "operating result". This indicator is used as a financial target in internal and external presentations (to analysts and investors) and is a useful measure for assessing the Group is operating performance (as a whole and at a business unit level), also by comparing the Operational profitability of the reference period with that of previous periods. This allows you to conduct trend analysis and compare the efficiencies made during the periods.

Fixed assets are determined as the sum of: tangible fixed assets, intangible assets and goodwill, equity investments and other non-current financial assets. This indicator represents a financial target in the business plan and in the external (analysts and investors) and represents a useful measure for the assessment of the net assets of the Group as a whole, including through comparison with previous periods. This allows you to conduct trend analysis and compare the efficiencies made during the periods.

Other non-current assets and liabilities include the sum of "other non-current assets / liabilities", deferred tax assets / liabilities, "termination benefits" and "provisions for risks and charges". This indicator represents a financial target in the business plan and in the external (analysts and investors) presentations and is a useful measure for assessing the ability to cope with possible future liabilities, including through comparison with periods previous. This allows you to conduct trend analysis and compare the efficiencies made during the periods.

Net working capital is the sum of: inventories, trade receivables and payables. This indicator represents a financial target for internal and external (analysts and investors) presentations and is a useful measure for assessing cash-generating capacity through operating activities over a 12-month time horizon, also by comparing with the previous periods. This allows you to conduct trend analysis and compare the efficiencies made during the periods.

Other current assets and liabilities include the sum of "tax receivables / payables", "other current assets / liabilities" and other current financial assets / liabilities. This indicator is used as a financial target in the internal (business plan) and external (analysts and investors) presentations and is a useful measure for assessing the ability to cope with possible short-term liabilities, including through comparison with previous periods. This allows you to conduct trend analysis and compare the efficiencies made during the periods.

Net invested capital is determined by the algebraic sum of "immobilized capital", "non-current assets / liabilities", "net current working capital" of "other current assets / liabilities" and assets sold for sale.”. This indicator represents a financial target in the business plan and in the external (analysts and investors) presentations and represents a useful measure for the assessment of all current and non-current assets and liabilities belonging to the Group, as detailed above.

The net financial position represents an indicator of the financial structure. This indicator is thus determined as the sum of the items: cash and cash equivalents, interest within 12 months of financing and m / l term and interest over months of m / l term loans and short-term financial payables. This indicator represents a financial target in the business plan and in the external (analysts and investors) presentations and is a useful measure for assessing the Group's financial debt level, also by comparing it with previous periods. This allows to conduct trend analysis and compare the efficiencies made during the periods.

Capital raised is obtained from the sum of "net financial position” and "equity ". This indicator represents a financial target in the internal business (business plan) and external (analysts and investors) presentations, represents the breakdown of sources of financing between equity and third parties, and is an indicator of the financial autonomy and soundness of Group. The NFP / Ebitda index, expressed as a multiple of EBITDA, is used as a financial target for internal and external (analysts and investors) presentations and represents a measure of the operational capability of remunerating Net financial debt.

Roe, i.e. the return on equity, is the ratio between net income and net equity, expressed as a percentage. This indicator represents a financial target in the internal business (business plan) and external (analysts and investors) presentations and intends to measure the profitability of risk investors.

Roi, i.e. net return on net invested capital, is the ratio between operating result and net invested capital, expressed as a percentage. This indicator is used as a financial target in the internal business (business plan) and in the external (analysts and investors) presentations and intends to measure the ability to generate wealth through operational management and thus to repay both equity and third party equity.

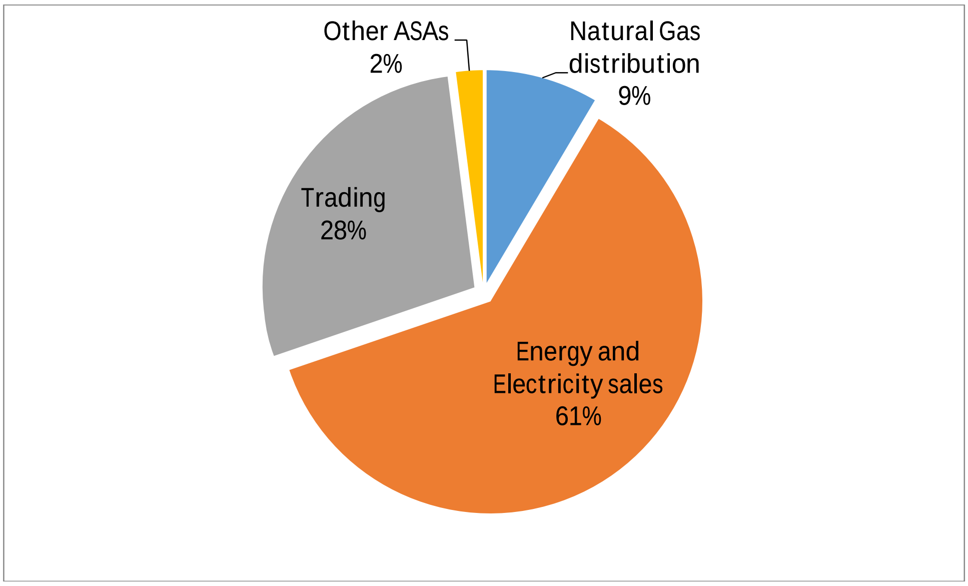
6. PERFORMANCE DATA – ECONOMIC RESULTS

Income statement (€/000)	2016	2015	Var. Ass.	Var. %
Total revenues	1,044,394	921,826	122,568	13.3%
External costs	-925,435	-780,461	144,974	
Cost of labour	-32,319	-31,229	1,090	
Financial income (expenses) from commodity risk management	-538	35	-573	
Financial income (expenses) from non-financial long term equity investments	470	1,073	-603	
Gross operating margin (Ebitda)	86,572	111,244	-24,672	-22.2%
Amortisation and devaluation	-32,789	-28,257	4,532	
Provisions-	-16,473	-13,687	2,786	
Operating Income (Ebit)	37,311	69,299	-31,988	-46.2%
Financial income and charges	-9,368	-7,897	1,471	
Total pre-tax income	27,943	61,402	-33,459	-54.5%
Taxes	-10,892	-24,704	-13,812	
Operating activities net income	17,051	36,698	-19,647	-53.5%
Disposal activities net income	-2,000	-1,057	943	
Net income at year end	15,051	35,641	-20,590	-57.8%

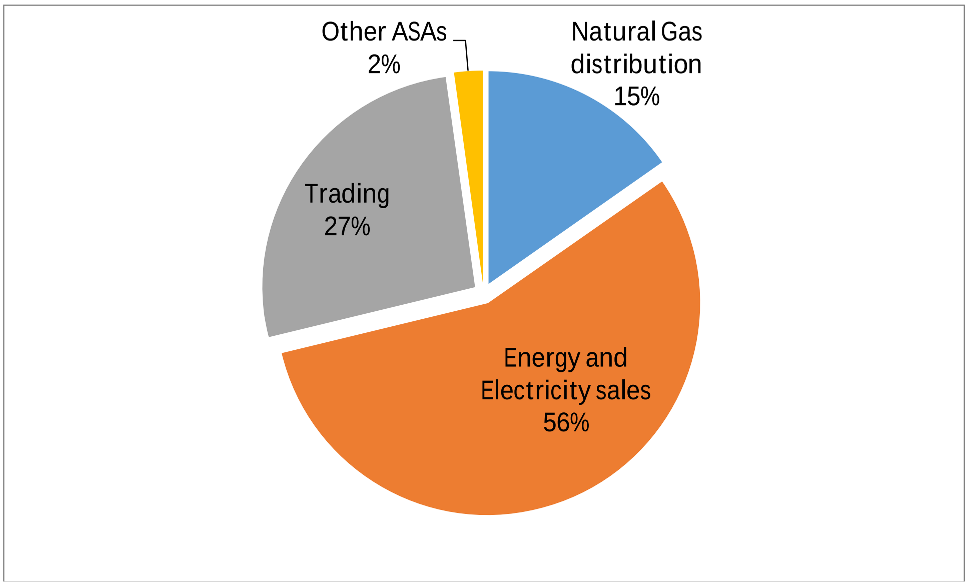
The Group's business model is currently structured based on Strategic Business Areas (ASAs) that are related to gas and electricity sales, natural gas distribution, gas trading, and other ASA including telecommunications, energy services, renewables. Subdivision into ASA reflects the reporting used by Management for analysis and planning of managed businesses.

The following chart shows the breakdown of revenues for ASA gross of the divestments for transactions between the various Asa. For more information on the economic performance, refer to the chapter on business area analysis.

REVENUES BY STRATEGIC BUSINESS AREAS AS OF 31 DECEMBER 2016:

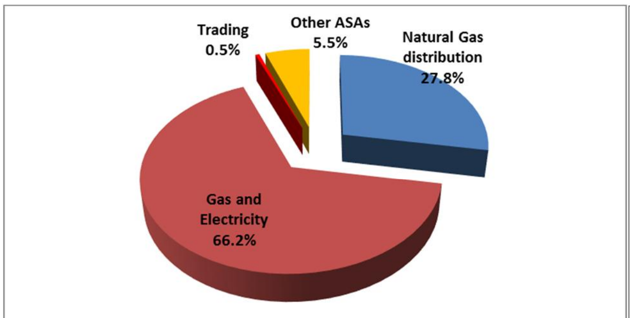


REVENUES BY STRATEGIC BUSINESS AREAS AS OF 31 DECEMBER 2015:

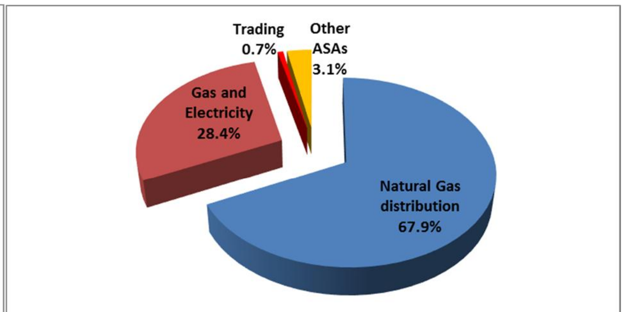


Revenue growth is mainly due to the increase in gas and electricity sales volumes and customers and the increase in volumes dealt with in gas trading operations. In the gas sales sector, the negative effect of the fall in commodity prices in the first months of 2016 was more than offset by the increase in acquired customers, also taking into account the above-described corporate acquisitions. In the gas distribution segment, revenues decreased by Euro 55 million due to non-recurring items related to the sale of gas and gas distribution networks in the Prato municipality (approximately 77 thousand pdr) in 2015. Revenues from other services increase (Telecommunications, Energy and Renewable Services).
External costs are increasing especially in the sale of electricity and trading for the increase in sales volumes and relative purchase costs. The impact of external costs on revenues improves, which, net of non-recurring items, ranges from 90.4% to 88.9%, with a better unit marginality. The increase in labor costs ranging from Euro 31.2 to Euro 32.3 million is due to the combined effect of the reduction in the personnel of the gas distribution sub-fund for the sale of Prato's networks and plants, to corporate acquisitions in the ASA Gas and electricity sales and new recruits for the development of business.

Income from non-financial equity investments, Euro 470 thousand in 2016 relates to the operating result of the associated company, Edma.
EBITDA is Euro 86.6 million (Euro 111.2 in 2015). In the 2015 financial statements there were non-recurring items of 51.7 million euro related to the gain on the sale of gas distribution facilities in the Municipality of Prato for which the Estra Group ceased its management in 2015. In 2016, Non-recurring items of Euro 4 million relate to revenues of Estra Energie for accession to the renegotiation mechanism for multi-year gas supply contracts. For an in-depth analysis of non-recurring revenues and costs, refer to the appropriate paragraph in the notes to the financial statements.
Net of non-recurring items, the increase in gross operating margin is over 24 million euro, with a 41% change in percentage. The increase in EBITDA is mainly due to the commercial sales of gas, electricity and for the consolidation of the companies Prometeo, Coopgas and Gas Tronto, Euro 7.2 million for EBITDA as at 31 December 2016 and both for the improvement of unit marginality and the development of policies for new customer's acquisition. Below is the detail of the composition of the Gross Operating Margin between the various Asa:



EBITDA IN ASAs as of 31 DEC 2016



EBITDA IN ASAs as of 31 DEC 2015

Depreciation amounted to 32.8 million euros compared to 28.2 in 2015. The main changes are:

- Higher amortization of intangible assets, which pass from 16.0 to 26.3 million Euros as a result of investments for customer acquisitions through both corporate transactions and investments in existing companies;
- Increase in amortization of tangible fixed assets (3.9 compared to 2.9 million in 2015) for new investments in networks and plants, especially in the gas distribution segment. The positive change in new investments compensated for the negative reduction due to the sale of nets and facilities to the Municipality of Prato in 2015;
- A decrease in the write-down of fixed assets, which goes from 9.3 million euros in 2015 to 2.6 million in 2016. The write-down of 2016 covered some assets of the other Asa and mainly the renewable segment.

Provisions amounted to 16.5 million euro (13.7 in 2015). The increase is due to higher provision for doubtful debts arising from new corporate acquisitions, resulting in a change in the scope of consolidation.
Net operating income decreased from Euro 69.3 million in 2015 to Euro 37.3 million in 2016. Net of non-recurring items, operating income increased by Euro 8.4 million and amounted to Euro 38.2 million Euro compared to 29.8 million in 2015.
Financial income and charges has a negative balance of 9.4 million euros, up from 7.9 million in 2015 because of:

- A modest increase in the balance of financial income/expenses from 8.8 million euros to 9 million in 2016;
- A lower share of net result from the equity method of equity investments (from Euro 877 thousand positive to Euro 35 thousand negative).

Pre-tax income is affected by the significant change in non-recurring items and is 27.9 million euros compared with 61.4 in 2015.
The net loss of discontinued operations is Euro 2 million compared to 1.1 of 2015 and it relates to the change in the presumable realization of the subsidiary Useneko.
The net income for the year amounts at Euro 15.1 Mln..

Performance Data – pro forma economic indicators

In order to provide a more adequate representation of the Group's current volume and margins following the acquisition of Prometeo, the main economic data are presented as if the subsidiary had been acquired from 01/01/2016 and thus include in consolidated data the economic values of the first quarter 2016 of the subsidiary. Revenues totaled 1,066 million euros. The increase compared to the economic figures of the consolidated financial statements is attributable entirely to gas and electricity sales. Gross operating profit amounted to 90.3 million euros. Prometeo's EBITDA contribution for the first quarter was 3.7 million euros. Consolidated operating income including the economic figures for Prometeo for the full year amounted to Euro 37.6 million.

Pro-forma Economic Indexes (€/000)	2016	2015	Var. Ass.	Var. %
Revenues	1,065,844	921,826	144,018	15.6%
Operating costs	- 975,530	- 810,582	164,948	20.3%
Gross operating margin (Ebitda)	90,314	111,244	- 20,930	-18.8%
Amortisation, depreciation and provisions	- 52,718	- 41,944	10,774	0.1%
Operating Income (Ebit)	37,596	69,299	- 32,290	-46.6%

7. PERFORMANCE DATA – FINANCIAL POSITION

Reclassified Balance Sheet (€/000)	31-Dec.-16	%	31-Dec.-15	%	Var. Ass.	Var. %
Intangible fixed assets	348,778	66.6%	262,93	72.6%	85,848	32.7%
Tangible fixed assets	47,882	9.1%	46,595	12.9%	2,081	4.5%
Non-current investments and financial assets	43,732	8.3%	52,664	14.5%	-8,933	-17.0%
Fixed assets	440,392	84.0%	362,19	83.0%	78,203	21.6%
Other non-current assets / liabilities	-35,098	-6.7%	-23,663	-5.4%	-11,435	48.3%
Net working capital	121,355	23.2%	109,786	25.2%	11,569	10.5%
Other current assets / liabilities	-3,539	-0.7%	-13,752	-3.2%	10,213	-74.3%
Assets / liabilities held for sale	857	0.2%	1,761	0.4%	-904	-51.4%
Net invested capital	523,967	100.0%	436,321	100.0%	87,646	20.1%
Shareholders' Equity	320,521	61.2%	270,299	61.9%	50,222	18.6%
Short term net financial position	-131,362	-25.1%	-128,567	-29.5%	-2,795	2.2%
Medium/long term net financial position	334,807	63.9%	294,589	67.5%	40,219	13.7%
Net financial position	203,446	38.8%	166,022	38.1%	37,424	22.5%
Capital raised	523,967	100.0%	436,321	100.0%	87,646	20.1%

Fixed assets rose from Euro 362.2 to Euro 440.4 million, mainly due to corporate transactions (Gas Tronto, Coopgas and Piceno Gas Vendita) in the gas and electricity segment, and because of the consolidation of Prometeo. The above-mentioned transactions have led to the main change in intangible assets, which go from Euro 262.9 million to Euro 348.8, an increase of Euro 85.8 million.
The increase in non-current liabilities and net working capital is due to the change in the scope of consolidation. There are no significant changes in the companies already consolidated at December 31, 2015.
Net invested capital amounted to 524.0 million euros, an increase of 20.1% compared to 2015.
Shareholders' equity at December 31, 2016 amounted to 320.6 million euros (270.3 in 2015), an increase of 18.6% due to the result of the year and the consolidation operations of Prometeo with Edma's entry into the share capital of Estra Energie. The share of net equity on capital raised is stable at 61.2% (61.9% in 2015).
Financial indebtedness amounts to Euro 203.4 million (166.0 in 2015). Net medium/long-term financial position ranged from Euro 294.6 million to Euro 334.8 million due to the issue of a bond loan and the access to new medium and long-term loans.

The following are the main financial indices based on the consolidated financial statements at December 31, 2016:

	Asset indicators	2016	2015
1	Current liquidity	1.56	1.57
2	Leverage	1.63	1.61
3	Capitalization level	1.58	1.63
4	Non-current assets hedging	73%	75%
	Economic and asset indicators	2016	2015
5	ROE	4.7%	13.2%
6	ROI	7.1%	15.9%

1. *Short term assets/short-term liabilities ratio*
2. *Capital raised/Own funds ratio*
3. *Own funds/Net financial position ratio*
4. *Own funds/Fixed assets ratio*
5. *Net result/Own funds ratio*
6. *Operating income/Net invested capital ratio*

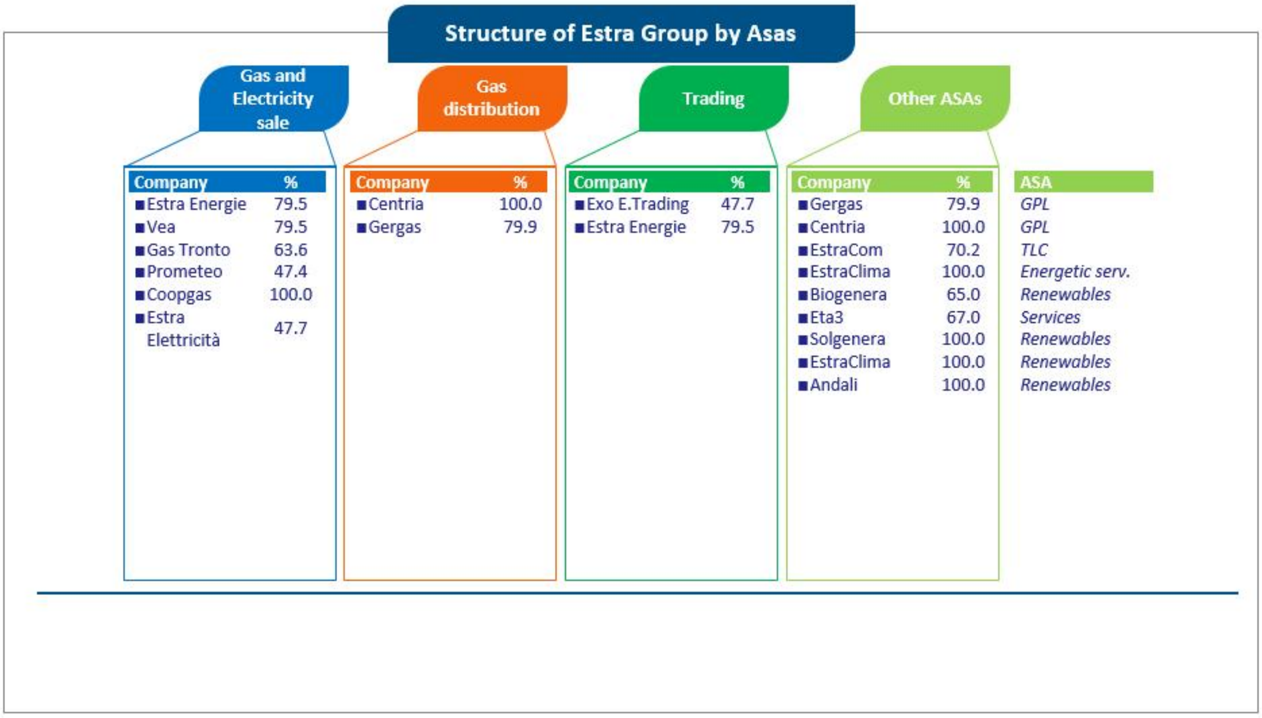
Financial data(€/000)	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Cash flows	299,235	281,404	17,832	6.3%
Due to partners for loans (within 12 months)	1,435	1,435	-	-
Due to banks (within 12 months)	115,815	104,547	11,268	10.8%
Short-term portion of bank loans	50,343	46,842	3,501	3.5%
Due to other lenders (within 12 months)	365	365	-	-
Short-term borrowings	167,958	153,189	14,770	9.6%
Receivables from banks	84	351	- 267	-76.1%
Net short-term financial debt	- 131,361	- 128,567	- 2,795	>100%
Due to partners for loans (over 12 months)	12,545	13,980	- 1,435	-10.3%
Due to banks and bonds (over 12 months)	315,892	273,872	42,020	15.3%
Due to other lenders (over 12 months)	6,370	6,737	367	-5.4%
Medium-long term debts	334,807	294,589	40,219	13,7%
Net financial debt	203,446	166,022	37,424	22.5%

The net financial position was Euro 203.4 million, an increase of 166.0 from the previous year. The most significant variation is recorded in medium and long-term indebtedness, up by € 40.2 million for the financing of investments made during the year. The structure of medium and long-term indebtedness shows a growth in debt obligations for bonds ranging from 146.3 million in 2015 to 213.0 in 2016 and a reduction in debt to banks for loans and other lenders, totaling 121, 8 million compared to 148.3 million in 2015.

The NFP / Ebitda ratio improves, which, net of non-recurring items, ranges from 2.8 to 2.5 (2.4 with pro-forma Ebitda).

Stable the ratio between NFP/Net Equity at 0.6.

8. PERFORMANCE DATA – STRATEGIC BUSINESS AREAS ANALYSIS



The following tables, shows the income statements, up to the operating result, divided between the various business sectors and comparisons with the previous year.
The business accounts broken down by ASAs include the structure costs, fully allocated to the various activities because of the use of the service provided and economic drivers for the allocation of costs for the remainder.
Income statements include business transactions between business areas valued at market prices.

EBIT for strategic business units (ASA) 2016	Natural gas distribution	Gas and electricity sale	Trading gas	Other Asas	Adjustments	Total 2016
Revenues	93,826	672,811	310,049	22,427	- 54,718	1,044,394
Operating costs	- 54,305	- 601,130	- 307,765	- 13,998	51,763	- 925,435
Personnel costs	- 14,929	- 16,619	- 233	- 3,494	2,955	- 32,319
Financial income (expenses) from commodity risk management	-	1,063	- 1,601	-	-	- 538
Financial income (expenses) from non-financial long term equity investments	298	172	-	-	-	470
Gross operating margin (EBITDA)	24,889	56,297	451	4,935	-	86,572
Amortisation and depreciation	- 11,524	- 17,953	- 37	- 3,275	-	- 32,789
Provisions	- 1,164	- 14,412	- 10	- 887	-	- 16,473
Operating Income (EBIT)	12,201	23,933	403	773	-	37,311

EBIT for ASA 2015	Natural gas distribution	Gas and electricity sale	Trading gas	Other Asas	Adjustments	Total 2015
Revenues	150,438	556,845	261,826	21,441	- 68,724	921,826
Operating costs	- 58,866	- 512,338	- 260,815	- 14,625	66,183	- 780,461
Personnel costs	- 16,749	- 13,407	- 213	- 3,401	2,541	- 31,229
Financial income (expenses) from commodity risk management	-	62	- 27	-	-	35
Financial income (expenses) from non-financial long term equity investments	673	399	-	-	-	1,073
Gross operating margin (EBITDA)	75,497	31,561	771	3,415	-	111,243
Amortisation and depreciation	- 11,301	- 4,857	- 45	- 12,055	-	- 28,257
Provisions	- 205	- 8,483	-	- 4,999	-	- 13,687
Operating Income (EBIT)	63,992	18,220	726	- 13,639	-	69,299

Natural Gas distribution

In gas distribution sector it should be noted that the comparison periods relate to service management on non-homogeneous perimeters, since in 2015 the company managed the gas distribution service in the municipality of Prato (ca 77 thousand pdr). Moreover, in 2015 there are revenues related to the gain on the sale of networks for 54.9 million Euros. Net of non-recurring items, the decrease in revenues from the gas distribution due to the fewer pdr managed was partially compensated by the increase in revenues for the TEE thanks to increased per unit price. The gross operating margin of the gas distribution division, net of non-recurring items, ranged from 23.8 to 24.9

million euro, with a 28.8% consolidated EBITDA margin. Operating income as of December 31, 2016 was Euro 12.2 million, with an impact on consolidated operating profit of 33%.

Natural gas distribution (€/000)	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Revenues	93,826	150,438	-56,612	-37.6%
Operating costs	-54,305	-58,866	-4,561	-7.7%
Personnel costs	-14,929	-16,749	-1,819	-10.9%
Financial income (expenses) from commodity risk management	-	-	-	
Financial income (expenses) from non-financial long term equity investments	298	673	-376	-55.8%
Gross operating margin (EBITDA)	24,889	75,497	-50,608	-67.0%
% on revenues	*26.5%*	*50.2%*		
Amortisation and depreciation	-11,524	-11,301	223	2.0%
Provisions	-1,164	-205	960	>100%
Operating Income (EBIT)	12,201	63,992	-51,791	-80.9%
% on revenues	*13.0%*	*42.5%*		

The reduction of gas entered into the grid is due to the effect of the disposal of the networks of Prato described above. Both active PDUs (+2.3 thousand) and network kilometers for new investments (+103 km) are increasing.

Distribution	31 Dec. 2016	31 Dec. 2015	Var, Ass,	Var, %
Gas allocated in networks (Mc/000)	554,134	651,531	-97,397	-14.9%
PDR	396,176	393,905	2,271	0.6%
Network kilometres	5,397	5,293	103	2.0%

Gas and electricity sales

Sales of Gas and Electricity have increased considerably compared to the previous year due to the consolidation of Prometeo, Coopgas and Gas Tronto and the expansion of the customer base for internal growth. The adverse effect of lower commodity prices has been more than offset by the increase in purchased customers. The first gas margin amounted to Euro 75.6 million compared to Euro 49.6 million in 2015, the increase being due to Euro 16.2 million because of a change in the scope of consolidation and to Euro 9.8 to improve unit margins.
The first margin of the electricity sector is 14.2 million euros compared to 6.0 of 2015 with a growth of 8.2 million euros, 1.7 of which is for corporate acquisitions and 6.5 million for growth for internal business. EBIT increased by more than 78% to EUR 56.3 million compared to 31.6 in 2015. The EBITDA of the gas and light sales segment contributes 65.0% to the consolidated EBITDA.
During 2016, gas sales benefited from non-recurring items of about 4 million euros thanks to the accession to the renegotiation mechanism of multi-year gas supply contracts. Amortization, which amounted to Euro 18 million compared to Euro 5 million in the previous year, noticeably increased because of the investments made during the year for customer acquisition through corporate transactions and investments made on pre-existing companies. The increase in provisions for Euro 6.0 million is due to the change in the scope of consolidation compared to 2015. The operating result is Euro 23.9 million, accounting for 63.8% of the consolidated operating profit.

Gas and electricity sale (€/000)	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Revenues	672,811	556,845	115,966	20.8%
Operating costs	-601,130	-512,338	88,792	17.3%
Personnel costs	-16,619	-13,407	3,211	24.0%
Financial income (expenses) from commodity risk management	1,063	62	-1,001	>100%
Financial income (expenses) from non-financial long term equity investments	172	399	-227	-56.9%
Gross operating margin (EBITDA)	56,297	31,561	24,737	78.4%
% on revenues	*8.4%*	*5.7%*		
Amortisation and depreciation	-17,953	-4,857	13,095	>100%
Provisions	-14,412	-8,483	5,929	>100%
Operating Income (EBIT)	23,933	18,220	5,713	31.4%
% on revenues	*3.6%*	*3.3%*		

In 2016, gas customers grew by 59.3% because of corporate transactions involving Prometeo, Coopgas and Gas Tronto (219 thousand customers) and the development of the business of other ASA companies (+10 thousands customers).

Number of gas customers (N°/000)	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Free market	259	177	82	46.4%
Enhanced-protection market	357	210	147	70.1%
Total	616	387	229	59.3%

The growth of customers for the development of the business and the acquisition of Coopgas and Gas Tronto led to an increase in sales volumes of 9.6%, totaling 1,200 million mc of gas sold.

Gas volumes (Mc/Mln)	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Free market	952	917	35	3.8%
Enhanced-protection market	248	178	70	39.3%
Total	1,200	1,095	105	9.6%

Electricity sales customers are growing strongly (+63,000 customers) compared to 2015. The growth in customers and volumes in the electricity sector is due to the development of Estra Elettricità's business (+24,000) and to customers acquired in 2016 from corporate transactions (+39,000). The volumes sold totaled 708 GWh.

Number of electricity customers(N°/000)	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Free market	121	79	42	53.0%
Enhanced-protection market	21	0	21	100.0%
Total	142	79	63	79.2%

Electricity volumes (Gwh)	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Free market	660	523	137	20.8%
Enhanced-protection market	48		48	100.0%
Total	708	523	185	35.4%

Trading gas

The trading sector has a downward margin compared to the previous year, despite the increase in revenues from Euro 261.9 million to Euro 310.0 million, with a marked increase in volume and reduced rates. The impact on the consolidated amount is equal to 0.5%.

Trading gas (€/000)	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Revenues	310,049	261,826	48,223	18.4%
Operating costs	- 307,765	- 260,815	46,950	18.0%
Personnel costs	- 233	- 213	19	9.1%
Financial income (expenses) from commodity risk management	- 1,601	- 27	1,574	>100%
Financial income (expenses) from non-financial long term equity investments	-	-	-	
Gross operating margin (EBITDA)	451	771	- 320	-41.5%
% on revenues	*0.1%*	*0.3%*		
Amortisation and depreciation	- 37	- 45	- 7	-16.6%
Provisions	- 10	-	10	>100%
Operating Income (EBIT)	403	726	- 323	-44.5%
% on revenues	*0.1%*	*0.3%*		

Trading	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Volumes (cm/mln)	2,042	1,065	977	91.8%

Other ASA

Other ASAs include telecommunications, energy (heat and cogeneration) and renewable energy services. The gross operating margin of the Other ASA is 4.9 million euros compared with 3.4 in the previous year and has a 5.7% impact on the consolidated balance sheet. The reduction in amortization and provisions, ranging from Euro

17.1m to Euro 4.1m, is due to non-recurring items for minor write-downs and provisions in the renewable energy sector. The operating profit was 801 thousand with an impact on the consolidated operating result of 2.1%.

Other Asas (€/000)	31 Dec. 2016	31 Dec. 2015	Var. Ass.	Var. %
Revenues	22,427	21,441	986	4.6%
Operating costs	- 13,998	- 14,625	- 627	-4.3%
Personnel costs	- 3,494	- 3,401	93	2.7%
Financial income (expenses) from commodity risk management	-	-	-	
Financial income (expenses) from non-financial long term equity investments	-	-	-	
Gross operating margin (EBITDA)	4,935	3,415	1,520	44.5%
% on revenues	*22.0%*	*15.9%*		
Amortisation and depreciation	- 3,275	- 12,055	- 8,780	-72.8%
Provisions	- 887	- 4,999	- 4,112	-82.3%
Operating Income (EBIT)	773	- 13,639	14,412	>100%
% on revenues	*3.4%*	*-63.6%*		

9. SUBSEQUENT EVENTS

In addition to what has already been mentioned in the section "Other acquisitions in the gas sales sector", regarding the acquisition, with the acquisition of control, of a further 45% stake in Piceno Gas Vendita Srl, are highlighted the following acquisitions of companies operating in the sector Gas sales after the end of the year:

- Acquisition by Coopgas S.r.l. in March 2017, of 49% of Sangro Servizi S.r.l., headquartered in Atessa (CH) for a price of Euro 1,777 thousand. The company holds about 7,000 customers located in the province of Chieti;
- Acquisition by Estra Energie S.r.l. in January 2017, of 49% of Gas Marca S.r.l., based in Civitanova Marche (MC) for a price of Euro 5,749 thousand. The company holds approximately 16,000 customers located in the provinces of Macerata and Fermo;
- Acquisition by Estra Energie S.r.l. in March 2017 of 100% of Verducci Servizi Energie S.r.l., based in Notaresco (TE) at the price of Euro 1,400 thousand. The company holds approximately 2,600 customers located in the province of Teramo.

Regarding the gas distribution sector, on 27/12/2016, with effect from 01/01/2017, Centria S.r.l. approved a share capital increase for euro 622 thousand (0.35% of share capital), with the issue of a new share subscribed by Energie Offida S.r.l. through the in-kind contribution of the company's, branch network and natural gas distribution facilities located in the territory of the Municipality of Offida.
Because of this operation, the Group acquired ownership and management of 16 km of network and about 540 pdr in the Municipality of Offida.

10. BUSINESS OUTLOOK

The 2017 objective is to continue the current growth path towards the role of a national level multiutility, and as a leading player in the energy market. This will be possible through the development and consolidation of our activities: distribution, natural gas sales, electricity distribution and transport networks, gpl sales and distribution, design and management of energy services and activities in the telecommunications sector.

For the natural gas distribution sector, the Group's objective is to participate in the ATEM (Minimal Territorial Scope) competitions, while for gas and electricity sales, increase the customer base.

A new page is also about to open up and it concerns the possible listing process by the Group, an important project aimed at enhancing the territories and business sectors.

However, in a macroeconomic context, characterized by a likely strengthening of the global economic recovery, there remain uncertainties linked to European growth speed and the risks of slowing down in some emerging countries. In a panorama of the Italian market that shows signs of moderate recovery, the Group's program for 2017 will continue to make a firm commitment to generate productivity growth by confirming this vocation in all areas of business.

In particular, Estra will focus its attention on efficiency and process goals, increasing the quantity and quality of services offered to customers and businesses, and to enhance its role at the national level and to be actively involved in the overall economic and social development of territories in which they operate.

11. MARKET REGULATIONS

Below are the most relevant features of the main themes of 2016 regulations developments, related to the various Estra Group business areas.

Natural Gas sales

AUTHORITY RESOLUTION AS OF 28 DICEMBER 2015 - 661/2015/R/gas; AUTHORITY RESOLUTION AS OF 30 MARCH 2016 - 141/2016/R/gas; AUTHORITY RESOLUTION 28 JUNE 2016 - 355/2016/R/gas; AUTHORITY RESOLUTION 29 SEPTEMBER 2016 - 455/2015/R/gas.
Quarterly update of the economic conditions of supply of natural gas for the protection service. These measures update, for each 2016 quarter, the economic conditions of the natural gas supply service for the customer protected.
AUTHORITY RESOLUTION 1 APRIL 2016 - 166/2016/R/gas. Modalità di determinazione delle condizioni economiche del servizio di tutela del gas naturale per il periodo compreso tra l’1 ottobre 2016 e il 31 dicembre 2017. This measure identifies the reference market for determining the CMEM component for the period between 1 October 2016 and 31 December 2017 and defines the levels of CCR and GRAD components for the same period.
AUTHORITY RESOLUTION 16 JUNE 2016 - 312/2016/R/gas. Bilanciamento gas, in attuazione del Regolamento (Ue) 312/2014. This resolution approves the Integrated Gas Balance Text (TIBG) text that transposes European Regulation 312/2014. It also defines the start of the new regime, subject to verification of some essential prerequisites. TIB's discipline is effective as of 1 October 2016. The new system puts users in charge of balancing their positions within the day-gas, using various sources that have infra-day flexibility. At the same time, a system of incentives developed to empower SNAM on the quality and timeliness of data rendered to operators.
AUTHORITY RESOLUTION 08 SEPTEMBER 2016 - 486/2016/R/gas. Aggiornamento dei valori percentuali necessari alla definizione dei profili di prelievo standard per l’anno termico 2016-2017. This measure approves the updating of the percentage values required for the definition of standard sampling profiles for the 2016-2017 thermal year.
AUTHORITY RESOLUTION 29 DECEMBER 2016 - 817/2016/R/gas. Aggiornamento della componente QVD delle condizioni economiche del servizio di tutela del gas naturale, per l’anno 2017. This measure defines the values of the QVD component to cover the costs of marketing the natural gas sales service to customers who benefit from the protection service in force from 1 January 2017.
AUTHORITY RESOLUTION 4 AUGUST 2016 465/2016/R/gas. Procedure ad evidenza pubblica per l’individuazione dei fornitori di ultima istanza e dei fornitori del servizio di default distribuzione, a partire dall’1 ottobre 2016. Modifiche al TIVG, al TIMG e all’Allegato A alla AUTHORITY RESOLUTIONzione dell’Autorità 102/2016/R/com. The measure follows the procedure initiated by Del. 92/2016/R/gas, in view of the deadline set for December 31, 2016, referring to the national insurance contract. It focuses the risks arising from the use of gas downstream of the point of delivery to which final customers of gas distributed through local gas pipelines and networks of transport, currently regulated byDel.191/2013/R/gas. The measure provides:

- Criteria and Procedures for the Single Buyer to Obtain Public Evidence Procedures for Identification of Ultimate Distributor (FUI) Providers and Distributor Default Distribution Service (FDD) Providers for the 2016-2017 Thermal Years E 2017-2018;
- Rules for managing the changeover phase between FUI / FDD from 1 October 2016;
- Changes to the discipline of the conditions for the provision of last resort services;
- A more precise declination of the Deed of Distribution (SdD) discipline, with particular reference to distributor activities;
- Interventions aimed at completing the volley discipline.

The new developments will come into force with different timeframes.

Electricity sales

AUTHORITY RESOLUTION 28 DECEMBER 2015 - 660/2015/R/eel; AUTHORITY RESOLUTION 30 MARZO 2016 - 140/2016/R/eel; AUTHORITY RESOLUTION 28 GIUGNO 2016 - 354/2016/R/eel; AUTHORITY RESOLUTION 29 SETTEMBRE 2016 - 536/2016/R/eel. These measures update, for each quarter of 2016, the economic conditions of the electricity sales service in greater protection. Following the changes made:

AUTHORITY RESOLUTION 28 DECEMBER 2015- 659/2015/R/eel. Shall review, from January 1, 2016, the prices and components for the retail sale of electricity (PCV, RCV, RCVsm, RCVi).
AUTHORITY RESOLUTION 09 JUNE 2016 - 297/2016/R/eel. Launch of the pilot project on intra-day market coupling between Italy and Slovenia: Verification of agreements between the parties. The measure approves the new agreements between GME and Terna and between GME and CSEA and contracts signed by partners in the ID-IA pilot project to introduce the market coupling for the infra-day market on the Slovenian border.
AUTHORITY RESOLUTION 01 JULY 2016 - 353/2016/R/eel. Adjustment of the fee for the reintegration of the cost of generating essential units for the security of the electrical system subject to cost reintegration. This measure provides for the adjustment of the fee referred to in Article 45 of Resolution 111/06 for the second half of 2016. This consideration is one of the elements used by Terna for the (monthly) calculation of the unit price hedge of the costs of the essential units for the safety of the electrical system. Therefore, Terna does not change how the fee is to be paid or published. As far as the impact of the measure is concerned, it should be noted in particular how the seller is required to:

- continue to monitor the publication by Terna of fees for the dispatching service;
- update the billing prospectuses used for billing against end-customers who are subject to free-market offers for which the payment of the fees is subject to the provision, and any possible comparability of the expenses referred to in the Code of Conduct Commercial.

AUTHORITY RESOLUTION 28 JULY 2016 - 444/2016/R/eel. Priority actions for the enhancement of actual imbalances in the field of electrical dispatching. The authority resolution, in the context of electrical dispatching, takes priority action on the enhancement of actual imbalances through a gradual application starting from 1 August 2016. In particular, the resolution provides:

- For unused power units and unpowered production units, other than those powered by renewable sources, the transition to a single-dual price mixed valuation.
- For the relevant production units powered by non-programmable renewable sources, to leave unchanged the current regulation, i.e. the option to opt for single price for the entire unbalanced volume or to adhere to the alternative regime provided for by resolution 522/2014/Reel.
- For unrelated production, units fueled by renewable non-programmable sources, starting from 1 January 2017, the alternative between a single-dual pricing mechanism and the equalization regime defined in resolution 522/2014/R/eel.

AUTHORITY RESOLUTION 7 JULY 2016 - 369/2016/EEL. Reform of existing market mechanisms for the protection of domestic and small business customers in the electricity sector. Establishment of similar protection to the free market. Further obligations for electricity and natural gas distribution companies. This measure reforms the market mechanisms for price protection for domestic and non-domestic customers of electricity by setting up the SIMILE Protection Tool. Those who are entitled to participate in it are all domestic customers and small businesses served with greater protection and end-customers who are entitled to greater protection. The Single Buyer will be the Administrator and will be responsible for conducting the procedures for tracking and monitoring Free Market Partners eligible.
CONSULTATION DOCUMENT AS OF 25 FEBRUARY 2016 - 75/2016/R/eel. The document contains the Authority's further guidelines, as compared to those already modified by the consultation document as of 6 August 2015 n.421/2015/R/EEL, on the reform of price protection, extending, inter alia, the scope for intervention to domestic customers.
ACQUIRENTE UNICO RULES AS OF 30 SEPTEMBER 2016 - Vendor Regulation and *Tutela Simile* Monitoring. Consistent with the duties of the Director of Similar Protection, the AU Regulation establishes the setting up of an Examination Commission consisting of a Chairperson and two Commissioners (supported by technical secretariat) with tasks in particular:

- To verify that the requirements of Del. 369/2016/R/EEL for the submission of the application for admission as a provider of similar protection;
- To verification of the timing of submission of the instance as well as the completeness and compliance of the documentation;
- To monitoring compliance with admission requirements and the behavior of eligible suppliers;
- To confirmation of admission or exclusion of a similar provider of protection.

AUTHORITY RESOLUTION 29 SEPTEMBER 2016 541/2016/R/eel. *Tutela Simile* to the free market. Adoption of the Regulation for the identification of suppliers and for the monitoring of SIMILAR PROTECTION and modifications to Authority Resolution 369/2016/R/eel. This measure approves the *Tutela Simile* Regulation provided by the Single Buyer and modifies Resolution 369/2016/R/eel, inter alia modifying the deadlines for the *Tutela Simile* Implementation Plan initially envisaged. AEEGSI considering the AU Regulation in substance consistent with Del.369/2016/R/eel has authority resolution:

- Approval with some modifications;
- Transmission to the UA so that, in accordance with the timelines provided for by Del. 369/2016 / R / eel. Provides publication on its website (publication on 30/09/2016)

Amendments to the AU Regulation, in addition to clarifying some of the contents, were considered by the AEEGSI to ensure overall consistency with what was established with Del. 369/2016/R/eel.
AUTHORITY RESOLUTION 4 NOVEMBER 2016 633/2016/R/eel. Reformed Enhanced-protection market and *Tutela Simile* in Free Market: Reforming the Terms of Service for Greater Protection and Defining PCR and PCV Fees. The measure follows the provisions of Del. 369/2016/R/EEL and takes into account the requests for clarifications forwarded to AEEGSI by operators potentially interested in admission as providers of similar protection for the handling of turnarounds or activation of a new or previously deactivated POD , And provides in particular:

- Modification of the conditions for the provision of the highest protection service in force since 1 January 2017 (Major Reformed Protection - MTR);
- The completion of the same protection discipline;
- The introduction of special reporting obligations for existing operators;
- Modification of the electrical voltage regulation.

AUTHORITY RESOLUTION 25 NOVEMBER 2016 689/2016/R/eel - Discipline of SIMILAR Protection facilitators in the electrical market. Amendments to Authority Resolution 369/2016/R/eel. This provision completes the SIMILAR PROTECTION discipline, detailing the facilitators' operation and the cost-recovery mechanism of the facilitators in order to assist end customers in understanding and subscribing to the service. With respect to what has already been introduced by Resolution 369/2016 / R /

- confirmed the forecasts that by the third month before the expiration of the Simplified Protection Contract the approved supplier will have to make a written communication to the customer;
- partly modified the contents of the communication to the customer with the indication:
  - the possibility for the customer to ask the operator for the greatest protection of the activation of the same service;
  - Contract a*d hoc* "automatic" application by admitted supplier, contractual and economic conditions made in the free market according to a standard structure defined by AEGGSI, will be in the absence of a voluntary conclusion in a free market contract with the same supplier of protection or with other vendor, or activation of the highest protection service.

AUTHORITY RESOLUTION 22 DECEMBER 2016 - 782/2016/R/eel. Implementation of network tariffs and tariff components reform to cover general system charges for domestic electricity customers. This resolution implements the provisions of Resolution 582/2015/R/EEL on the second step of the gradual tariff reform applied to domestic electricity customers, defining the tariff structures applicable from 1 January 2017 and the operational details of the measures introduced to facilitate domestic customers in researching the optimum level of contracted power.
STABILITY LAW AS OF 28 DECEMBER 2015 N. 208 AND DM MISE - RAI Tax on Bill. The 2016 Stability Law provides for the payment of the RAI fee - with an amount planned for 2016 of Euro 100 - in the bill relating to the electricity supply user. Anyone who owns a power supply user will directly receive the bill into ten monthly installments with the above amount, with a distinction only for tax purposes, starting from July 2016. The first bill will charge all the installments expired from January to July. The fee is due only once for all the devices held, in the places used for their own residence or residence, by the same subject and the subjects belonging to the same family. In the G.U. 04/06/2016 was published the implementing decree no. 94 of the MISE and on 21 June the Explanatory Circular of the Revenue Agency on the rules for determining the fee due for the various cases. As of July 2, 2016, the Single Buyer transfers monthly to the vendors the list of customers to which the date of the license is applied.

<u>Natural gas and Electricity sales</u>
Below are the main regulatory interventions that simultaneously affected the sectors of natural gas sales and electricity sales.
DDL COMPETITION 2015. On February 20, the Council of Ministers approved a draft law draft, "DdL Competition 2015", aimed at removing regulatory obstacles to opening up markets and promoting competition.
The decree was approved at first reading by the House on 7 October 2015 and is currently under the Senate's analysis (which has already made amendments with amendments and sub-amendments) to approve the abolition of the protected market from 1 July 2018.
AUTHORITY RESOLUTION 10 MARCH 2016 - 100/2016/R/com. Provisions concerning the issuance of the closing invoice for the cessation of the supply of electricity or natural gas. This measure, set up under the procedure initiated by resolution 412/2014/R/efr, defines the provisions concerning the issue of the closure invoice for the cessation of the supply of electricity or natural gas and the monitoring thereof. Rules for issuing the last invoice and a priority order for the use of read data are established by privileging the actual ones. Automatic vendor compensation is also provided in the case of non-compliance with the terms of availability of the data to

the seller and indemnities to be recognized by the final customer in cases where the distributor makes the measurement data available after 30 days from Cessation of supply.
AUTHORITY RESOLUTION 09 JUNE 2016 - 302/2016/R/com. Modalities and timing about withdrawal from the supply contracts. This measure reforms the modalities and timing for the exercise of the right of withdrawal from the supply contracts for small end customers and makes changes to TIV and Resolution 138/04.
AUTHORITY RESOLUTION 05 AUGUST 2016 - 463/2016/R/com. Provisions relating to periodic invoicing, compensation to sellers and distribution companies and additional obligations to the said undertakings in the matter of measurement. This measure endorses the "Integrated text of the provisions of the Electricity Regulatory Authority for Gas and the Water Supply System on Retailing Customer Invoicing for Electricity and Natural Gas (TIF) Customers" and introduces indemnities At the expense of the vendors and the distribution companies and further obligations to the said undertakings in terms of measure. The TIF regulation establishes that the sellers will have, depending on the type of market they are looking for and anyway in the contracts concluded with the end customers subject to the application:

- The obligation to apply the TIF conditions with respect to Major Protection and Protection (Articles 3.1 and 3.5);
- The possibility of derogating from some of the conditions of TIF in free market supplies, completely receiving the content otherwise (Article 3.2, 3.3 and 3.4) If the seller wishes to opt for such an exemption, he must:
- Publish on its website, among the offers addressed to the customers affected by the measure, at least one contractual proposal that acknowledges all the provisions of the TIF without any derogation;
- Inform the customer, in the information before the conclusion of the free market contract provided for in the Code of Business Conduct (Delegation ARG/com 104/10), that the contract bid may be available in line with the TIF, indicating the modalities for take a look.

AUTHORITY RESOLUTION 05 AUGUST 2016 - 463/2016/R/com. Billing and Paying Rules: Changes to the discipline defined by the Authority's resolution 463/2016/R/com. This provision will make changes to Resolution 463/2016 / R / com and its Annex A (TIF), as well as to TIV, TIME and TIVG for billing and cutoff rules. As far as the impact of the measure is concerned, it is noted how seller is required to assess the necessity of reviewing his transposition plan (if already adopted) of Del.463/2016/R/com on measuring data, billing, payment, recognition, indemnities, etc . The aim is to define (if not yet adopted) the definition and implementation of any adjustment plan in relation to the regulatory dictum; Provide for the communications provided to final customers and AEGGSI within the monitoring system.

AUTHORITY RESOLUTION 21 JULY 2016 - 413/2016/R/com. New integrated text of the regulation of the commercial quality of sales services and changes to the regulation of the commercial quality of the electricity and natural gas distribution service, code of conduct and bill 2.0. This measure approves a new integrated text of the regulation of the commercial quality of sales services and makes changes to related aspects of the regulation of the quality of electricity and gas distribution services, as well as the Code of Business Conduct and Bond 2.0.
The measure:

- It is part of the broader process for rationalizing the system of protection of end-users for complaints handling and out-of-court resolution of disputes (strategic objective AEEGSI OS19), focusing on the need to make the solution of the problems of Final customers already at the first level, ie when the complaint is handled by the seller;
- It follows the steps with which AEGGSI:
  - approved the Integrated Text on Out-of-Court Resolution of Disputes between Customers or End Users and Operators or Managers in Regulated Sectors / TICO (Delegation 209/2016 / E / com);
  - has regulated (383/2016 / E / com) the regulation of compulsory conciliation attempt through the Single Buyer;

<u>Natural Gas Distribution</u>
AUTHORITY RESOLUTION 02 DECEMBER 2015 - 583/2015/R/com. Capital remuneration for invested capital for infrastructure services in the electricity and gas sectors: criteria for determining and updating. This resolution approves the criteria for determining and updating the rate of remuneration of invested capital for infrastructure services in the electricity and gas sectors (TIWACC 2016-2021), which are applicable for the period 1 January 2016 to 31 December 2021 .
AUTHORITY RESOLUTION 14 JANUARY 2016 - 10/2016/R/gas. Update of the interest rate for determining the redemption to the outgoing managers of the one-off sums for the coverage of the tender costs for relying on the natural gas distribution service. With this Resolution updated with validity for the three-year period 2016-2018, the interest rate to be applied for the determination of the redemption to the outgoing managers of the amounts for the coverage of the tender costs referred to in decree 226/11, According to the modalities Defined by the Authority's resolution of July 3, 2014, 326/2014/R/gas.

AUTHORITY RESOLUTION AS OF 25 FEBBRAIO 2016 - 70/2016/R/gas. Initiating a procedure for defining the evaluation criteria of the documentation attached to the applications submitted by the distribution companies for the partial payment or the payment of the payment of the amount foreseen in cases of non-execution of the redeployment points provided in the default service distribution. This measure initiates a procedure for the adoption of provisions to define the criteria for the assessment of applications submitted by distribution companies for the partial payment of the amounts foreseen in the case of failure to dispose of a delivery point according to the time limits set by the regulation.
LAW AS OF 25 FEBRUARY 2016 No. 21 - Law of Conversion of Decree-Law of 30 December 2015, n. 210, which reads: "Extension of deadlines foreseen by legislative provisions. Article 3 of the coordinated text of the decree extends the deadlines for the publication of tenders relating to single tenders for the granting of the natural gas service concession of all areas and also eliminates the economic sanction for the administrations . Further six months will be foreseen by the Regions to award the Procurement Stations to the publication of the call, before exercising the substitute power. The terms of art. 3, paragraph 1, of the decree of the Minister of Economic Development and of the Minister for relations with the Regions and territorial cohesion of 12 November 2011, no. 226 concerning the non-publication of the notice of invitation to tender set out in Annex 1 to the same Regulation shall be extended by twelve months respectively for the first grouping of thirteen months for the second grouping of thirteen months for the areas Of the third, fourth and fifth groupings, of nine months for the sixth and seventh rounds and of five months for the eighth rounds, in addition to the extensions in force at the date of entry into force of the law amending this Decree. Upon expiration of these terms, the competent district authority shall allocate a further six months to complete, which shall start the tendering procedure by appointing a commissioner to the acta, pursuant to art. 14, paragraph seven, of the Legislative Decree of 23 May 2000, no. 164. After two months from the expiry of that period, without the competent Region having appointed the Commissioner, the Ministry of Economic Development, having heard the Region, intervenes to open the race, replacing the appointment of the Commissioner. The amount eventually incurred by the outgoing issuers for the coverage of the tender costs referred to in art. 1, paragraph 16-quater, of Decree-Law no. 145, converted, with modifications, by Law no. 9, shall be transferred from the contracting authority to the Commissioner within one month of his appointment, net of the amount of the disbursements previously made for the preparation of the tender documents.
AUTHORITY RESOLUTION 10 MARCH 2016 - 99/2016/R/gas. Determination of final reference rates for gas distribution and measurement services for the year 2015. This resolution sets the final reference rates for gas distribution and measurement services for the year 2015, calculated on the basis of Basis of the balance sheet data for the year 2014, pursuant to Article 3, paragraph 2, letter b) of the RTDG. For the purpose of this determination, applications for tariff redetermination and application of the office tariff will be implemented from 2015 and are considered as claims for the correction of balance and physical data received by 15 February 2016.
AUTHORITY RESOLUTION 07 APRIL 2016 - 173/2016/R/gas. Determination of provisional tariffs for gas distribution and measurement services for the year 2016 and approval of two-monthly prepayment equalization amounts relating to the natural gas distribution service for the year 2016. With this The provisional tariffs for gas distribution and measurement services for the year 2016 are determined on the basis of the balance sheet data for the year 2015, pursuant to Article 3 (2) (a) Of the RTDG. With the same resolution, the two-monthly down payment equalization amounts relating to the natural gas distribution service referred to in Article 45 of the RTDG for the year 2016 are approved for six distribution companies.
AUTHORITY RESOLUTION 15 SETTEMBRE 2016 - 500/2016/R/GAS - Authentic interpretation regarding the determination of fees to cover operating costs related to the gas distribution service, for locations with expiration of post-enrollment coverage. Changes to RTDG.
The measure:

- Follows the clarifications required by AEGGSI on how to determine the relevant density for the purpose of identifying the unit charge to cover operating costs, with particular reference to how to consider enclaves, i.e. locations with expiry After the race;
- The objective is therefore to clarify the contents of RTDG.

Contents:

- Must also be applied to enclaves;
- In the case of application to the enclaves, it is limited to the date of actual management by area of these locations, from the consideration value that would be applied if the locations were considered to belong to the municipal and supra-municipal perimeter.
- This limitation would eliminate possible incentives for continuation of municipal and over-municipal management and distortions in award-winning service allocation mechanisms.

AUTHORITY RESOLUTION 22 DICEMBRE 2016 – 774/2016/R/gas. Updating tariffs for gas distribution and measurement services for the year 2017. This measure approves the mandatory tariffs for natural gas distribution, measurement and marketing, as referred to in Article 40 of the RTDG; different gas tariff options (RTGD Art. 65) and the two-month down payment equalization amounts for the natural gas distribution service

2017 (RTGD Art. 45). The same measure approved the maximum recognition amount of higher charges arising from concession fees, (RTGD, Art. 59), for distributing companies that have submitted an application and provided appropriate documentation.
AUTHORITY RESOLUTION AGOSTO 2016 - 466/2016/R/gas. Changes in the default service discipline on natural gas transport networks.
The measure:
- Follows behaviors detected by AEEGSI by distribution service users who have not paid for the invoices invoiced by SdDT service providers after being served under SdDT and found a new seller all Wholesale shipping service user;
- It strives to counteract such behaviors considering that:
    - the activation of the SDD in the case of non-availability of gas to the delivery points of the transport network (REMI) allows a user of the distribution service to have a temporary service in order to find a new supplier, thereby avoiding the Loss of distribution network access requirements;
    - failure to pay SdDT determines the need for the SdDT to access a mechanism of coverage of the burden with burdens on the whole system;
- It is characterized by urgent reasons to avoid the spread of opportunistic practices with undue increase in the burden of generality.

Provides:
- Interventions regarding the requirements for access to the distribution network;

The return to a subsequent measure referring to discipline confirmation and approval, even after the submission of comments and proposals by the operators concerned.
The news provided have effect since October 1, 2016.

<u>Supply, transportation and storage of natural gas</u>
Supply of Natural Gas
AUTHORITY RESOLUTION 10 NOVEMBER 2016 - 649/2016/R/gas. Reform of the Gas Market Authority 2013 - Mechanism for the promotion of renegotiation of multi-year gas supply contracts in the years 2014-2016. Definitive quantification of the amounts due and final determinations. As part of the second phase of the reform of economic conditions from October 2013, this measure quantifies the final amounts incurred by companies admitted to the renegotiation mechanism for long-term contracts governed by resolution 447/2013/R/gas.
Natural Gas transport
AUTHORITY RESOLUTION 21 APRIL 2016 - 184/2016/S/gas. Initiation of a sanction procedure for the detection of violations of the tariff regulation for the transport and dispatching of natural gas. Closure possible with simplified procedure. This resolution initiates a sanction procedure to ascertain violations of the tariff regulation for the transport and dispatching of natural gas. Closure possible with simplified procedure.
AUTHORITY RESOLUTION 26 MAY 2016 - 270/2016/R/gas. Disposal management provisions at the points of the national gas interconnection network abroad. This draft scheme introduces changes to the management system for the differences between the capacity conferred and used at the interconnection points with foreign gas pipelines in order to make the system more consistent with the currently available capacity portfolio of products.
AUTHORITY RESOLUTION 04 AUGUST 2016 - 466/2016/R/gas. Changes in the default service discipline on natural gas transport networks. This measure harmonises the discipline of the mechanism for covering the burden of non-payment of the default shipping service, applicable to the major transport undertaking, with that applicable to the transitional providers. In addition, the requirements for access to natural gas distribution networks for distribution users are integrated with the requirement to be fulfilled on previous deliveries of the default shipping service.
AUTHORITY RESOLUTION 17 NOVEMBER 2016 - 669/2016/R/gas. Approval of approved revenues for the transport and dispatching of natural gas for the year 2017. This resolution approves the revenues recognized for the transport and dispatching of natural gas for the year 2017.
AUTHORITY RESOLUTION 22 DICEMBRE 2016 - 776/2016/R/gas. Approval of transport and dispatching charges for natural gas for the year 2017. This resolution approves the tariff proposals for the transport and dispatching of natural gas for the year 2017.

Natural Gas storage
AUTHORITY RESOLUTION 29 FEBRUARY 2016 - 77/2016/R/gas. Provisions for storage services for the thermal year 2016-2017. This measure governs the procedures for the organization of auctioning procedures for the allocation of storage capacity for the year 2016/2017.
AUTHORITY RESOLUTION 24 MARCH 2016 - 135/2016/R/gas. Capacity allocation arrangements for the integrated regasification and storage service for the 2016 - 2017 thermal year. This measure governs the

method for calculating the reserve price for auctioning capacity-based auction procedures for the service Integrated regasification and storage for 2016/2017.
AUTHORITY RESOLUTION 24 MARCH 2016 - 136/2016/R/gas. Approval of percentages of gas to cover the technical consumption of storage. This measure sets the percentages of gas applied to users to cover the technical storage costs for the storage year 2016-2017.
AUTHORITY RESOLUTION 16 JUNE 2016 - 323/2016/R/gas. Provisions regarding the adjustment of economic bargaining related items for the storage year 2016/2017.
This measure:

- Disciplines the criteria for defining the provisions on the regulation of economic bargaining related to the storage service for the 2016-2017 thermal year, aimed at securing the storage companies with a revenue stream substantially equivalent to that obtainable with the storage facility, Application, auctioned capacities, fee rates;
- Starts a cognitive review of the state of the benefits provided by the storage fields under concession to Stogit S.p.A.

<u>Renewable energy systems</u>

AUTHORITY RESOLUTION 17 MARCH 2016 - 118/2016/R/efr. Amendments to ARG/elt 104/11 resolution on the transparency of sales contracts to final customers of electricity produced from renewable sources. This provision modifies and integrates ARG/elt 104/11 authority resolution and the Code of Business Conduct to improve consumer protection in the case of the sale of electricity from renewable sources.
BOARD OF INTERINSTITUTIONAL DECREE FOR THE USE OF BIOMETHANE AND BIOCARBONS - From 13 December 2016 until January 13, 2017, the draft interministerial decree for the use of biomethane and biofuels including advanced ones (ad Eg from waste or agricultural residues). The decree aims to stimulate a comparison between the operators involved in the chain in order to prepare the legislative instruments suitable for achieving the European target of 10% of renewable energy sources in the energy sector of the transport sector, of which at least 0 , 5% through the use of advanced biofuels.
DAFI 2016 APPROVAL – 14 DECEMBER 2016. The Official Gazette has published the Decree on Alternative Fuel Infrastructures, including recharges for electric vehicles, which transposes the DAFI Directive, the Alternative Fuel Initiative Directive. The Decree distinguishes fuels for which priority is to be put in place to disseminate them: the targets for electricity and natural gas are mandatory, while hydrogen and Gpl targets are optional.

<u>Energy Services and Energy Efficiency</u>

AUTHORITY RESOLUTION 21 JULY 2016 - 421/2016/R/efr. Contract type for the provision of incentives provided for by the Interministerial Decree of 16 February 2016 concerning small-scale measures to increase energy efficiency and to produce thermal energy from renewable sources. With this measure, the type contract, previously defined by Resolution 338/2013/R/efr, is updated to provide incentives for small-scale measures. The aim is to increase energy efficiency and to produce Thermal energy from renewable sources, based on the elements provided by the GSE, introducing changes essentially due to the alignment with the modifications set out in the Interministerial Decree of 16 February 2016.
AUTHORITY RESOLUTION 06 OCTOBER 2016 - 557/2016/R/efr Provisions for the determination of the primary energy saving targets for electricity and natural gas distributors subject to the obligations of the White Certificate Mechanism for the years following 2016. This measure contains provisions aimed at Collection of essential data for the next breakdown of mandatory energy and natural gas distributors of the energy saving targets to be defined by the Minister for Economic Development for the years following 2016; They are in accordance with the current provisions of Resolution 391/2013 / R / efr, which has in the meantime ended its effects. These are provisions aimed at the determination of the primary energy saving targets for electricity and natural gas distributors subject to the obligations of the white certificates mechanism for the years following the 2016 mandate. Collection of essential data for the next breakdown of mandatory energy and natural gas distributors of the energy saving targets to be defined by the Minister for Economic Development for the years following 2016; They are in line with the current provisions of Resolution 391/2013 / R / efr, which has in the meantime ended its effects; Stipulates that by 15 November of each year t, starting from 2016, for which national annual quantitative requirements of the White Certified Scheme are defined, the distributors of electricity and gas shall transmit to the Authority a declaration of substitution Of the number of end customers connected to their distribution network on 31 December of year t-1 and the amount of electricity and gas distributed in year t-1.
AUTHORITY RESOLUTION 01 DECEMBER 2016 - 710/2016/E/efr. Initiating a CES on the performance of the Energy Efficiency Market (White Certificates), geared to revising the method of determining the tariff contribution only in order to increase the efficiency of the mechanism. This measure initiates a cautious

exploration of the performance of the energy efficiency market in order to evaluate the opportunity to review the method of determining the tariff contribution in order to increase the efficiency of the mechanism.

AUTHORITY RESOLUTION 01 DECEMBER 2016 - 739/2016/R/efr. Approval of fees for the year 2017 for the operation of organized markets and platforms for the registration of bilateral exchanges of guarantees of origin and energy efficiency certificates managed by the Energy Market Operator S.p.a. This decision approves the fees for the year 2017 for the operation of the organized markets and the Bilateral Trading Registers of Origin Warranties and Energy Efficiency Certificates.

<u>Telecommunication</u>

OPTIC FIBER AUTHORITY RESOLUTION - (D.Lgs 33/2016) - It represents a major innovation for the communications sector as it implements a 2014 European Directive and establishes standards to facilitate the installation of high-speed electronic communications networks.
The measure:

- Promotes the shared use of existing physical infrastructure by enabling a more efficient deployment of new physical infrastructures to reduce the cost of installing such networks;
- Eliminates non-recruiting charges by removing the possibility for other municipalities to impose taxes on the work of the operators, which can therefore be taxed only for public land use (Tosap and Cosap);
- Promotes innovative digging technologies, which in fact makes a push for the use of trenchless solutions, i.e. low environmental impact;
- Introduces novelties for access to infrastructures, including the fact that refusal to access requests may only be opposed in some cases as a failure to accommodate elements of high speed electronic communications networks, space inaccessibility, Insertion is subjectively susceptible to determining or increasing the risk of public safety, safety or public health, or threaten the integrity and security of the networks;
- Introduces the "infrastructure landfill", i.e. a mapping of existing fast electronic communications networks and any other functional physical infrastructure to accommodate them, present in the national territory;
- Introduces novelties for condominiums, which are recognized by law and where required the obligation to meet all reasonable access requests submitted by network operators under fair and non-discriminatory terms and conditions, including with regard to price.

<u>Crosscutting themes</u>

STABILITY LAW 2016, NO° 208, as of 28 December 2015, decided the following issues concerning:
Ecobonus Bonuses and Restructuring (DOCUMENT 22, paragraph 74)
Description: Tax incentives for energy redevelopment and recovery of building assets through the extension of the Irpef deduction foreseen for the 65% of energy recovery and 50% for the restoration of building assets. Objective: Reducing tax burden and supporting investment. Target Audiences: Contributors to Physical People, Condominiums and Enterprises Times: Year 2016.
Increase in amortization and goodwill amortization as part of business combination (DOCUMENT 27 comma 95 - 96)
Description: The provision foresees the reduction of the amortization period of goodwill and trademarks, with the 16% substitute tax, 10 to 5 years. Objective: Incentives for business combinations to foster business size growth. Times: Business Reorganization Operations that take place from the following financial year to December 31, 2015.
Rai Reform (DOCUMENT 42 comma 152 to 159)
Description: Reduction of the amount of the RAI fee from 113.50 to 100 euro, charging the same in the contract for the supply of electricity. The presumption of ownership of the television set is introduced in the presence of an electricity supply contract at the taxpayer's place of residence. Electricity bill bills will be charged with ten-rate installment fee. Objective: Contrary to the payment of Rai canon payment. Times: From 2016 to regime.
D.Lgs. as of 18 April 2016, n°50 - Implementation of Directives 2014/23/EU and 2014/25/EU on the award of public service contracts, public contracts and procurement procedures in the water, energy, transport and postal services sectors. As well as for the reorganization of the existing, discipline in the field of public contracts relating to works, services and supplies. News concern the adoption of generic guidelines to ensure the principles of transparency and homogeneity of the proceedings.

Investment bonus on new instrumental assets in the South of Italy (DOCYUMENT 28 comma 98 to 107)
Description: In order to qualify for a tax credit, a maximum of 20% will be eligible for a tax credit for the purchase of machinery, plant and equipment for existing production facilities or planted in the assisted areas of southern Italy, (including through financial leasing contracts Small businesses). Follows 15% for medium-sized enterprises

and 10% for large enterprises, commensurate with the share of the total cost of new instrumental assets, up to the limit for each investment project, of Euro 1.5 million for small businesses, Euro 5 million for medium-sized enterprises and Euro 15 million for large companies. Objective: To encourage the recovery of investments in the South of Italy. Times: from 2016 to 2019.
Super Depreciation (DOCUMENT 26, comma from 91 to 94, 97) Description: The purpose of this provision is to encourage investment in new material assets (between 15 October 2015 and 31 December 2016). It will be possible through a percentage increase in the fiscally recognized cost of the assets, in order to allow, for determining the Ires and Irpef, the taxation of the highest taxable period to be deducted from income. The benefit affects both the instrumental assets acquired in property and those purchased in leasing. In particular, the provision provides that the acquisition cost is increased by 40% and the relevant limits for the deduction of the depreciation allowances and the financial lease rates of the company's vehicles are increased by 40%. Objective: Incentives to invest in new instrumental goods. Times: Ordinary duration of the amortization relating to the purchase of instrumental goods from October 15 to December 31, 2016.

12. TRANSACTIONS WITH RELATED PARTIES

Estra and the Group companies establish relationships with related parties inspired by principles of transparency and fairness. These relationships generally relate to services provided to customers (gas, electricity, heat, etc.) and are governed by the terms and conditions normally applied in such situations.

For unusual performances, agreements are settled at the normal market conditions.

The information on the balance sheet and income statement transactions with related parties and related companies is set out in the explanatory notes to the financial statements.

13. RISK MANAGEMENT

Pursuant to art. 2428 paragraph 2, section 6-bis) of the Italian Civil Code, as amended by Legislative Decree no. 394/03, the required information is hereby shown.

Risk related to legislation and regulations

The Group operates in a strongly regulated sector. Among the risk factors in its operations is therefore the not always foreseeable constant evolution of the laws and regulations applying to the electricity in natural gas sectors as well as the sectors involved in operating environmental services and the production of energy from renewable sources. The effects of changes in the regulatory framework, for example, can involve market operating methods, tariff plans, and the quality of service levels required and obligations of a technical-operational nature. Regulatory changes resulting in conditions that are unfavorable for sector operators can have negative effects on the Group's financial position in terms of lower revenues, reduced margins and/or the abandonment of initiatives already in progress. Given these risk factors, the Group adopts a policy of monitoring and managing legislative risk, in order to mitigate as much as possible its effects, through an articulated monitoring on several levels which provides for collaborative dialogue with the institutions and the government and regulatory organizations of the sector, the active participation in associations and work groups established within these entities, and examination of legislative changes and the provisions issued by the sector Authority.

Moreover, constant dialogue is held with business units interested in the legislative changes, in order to appropriately assess potential impacts. Some of the main areas on which legislative changes focus are listed below:
- the laws regarding assignment of concessions for the gas and electricity distribution service;
- the regulation of economically significant local public services;
- changes in the market regulations regarding Green Certificates;
- the issues set forth in the European Union's Third Energy Package.

Risks arising from the approval of new tariff systems

According to the current tariff system, the Group's revenues are partly updated in accordance with criteria predetermined by AEEGSI – the regulatory authority for electricity gas and water. We cannot exclude the industry regulatory authorities' approval of new legislation and/or regulations, which may, possibly negatively, affect the Group's revenues.

Risk related to competition

The Group operates in a competitive scenario that places it in competition with Italian and multinational entities, some of which can avail of much greater financial resources. Despite the Group considering it has a competitive edge deriving from its strong local roots if - following expansion of the number of direct competitors - it is unable to retain its competitive strength on the market, it could record a drop in customers and/or see its margins decline, with subsequent negative effects on its activities and growth prospects, as well as on its financial position.

Risks associated with future consumer trends

Regarding the gas distribution business, based on the existing tariff system, the revenues of the Issuer are partly updated annually in accordance with criteria set by AEEGSI (Regulatory authority for electricity gas and water), which reflect an implied annual growth rate of natural gas volumes introduced into the transport network. However, the amounts of natural gas introduced into the Italian transport network depend on factors beyond the Issuer's control, such as the price of natural gas compared to other fuels, electricity sector development, economic growth, climatic changes, environmental laws, the continuing availability of natural gas imported from abroad and the availability of sufficient transport capacity through import pipelines. With regard to gas and electricity sales, a negative trend or slow growth in the demand for gas and electricity could have an impact in terms of lower sales volumes of gas and electricity for the Group, subsequently reflected in a decrease in the Group's overall sales margins. Among the activities implemented in this respect, the Group monitors both the electricity load profile and gas consumption trends, at Italian and international macroeconomic scenario levels, based on updates published by the leading economic and financial forecast agencies. The analysis of such data aims to give an indication as far in advance as possible of potential electricity and gas demand trends, and consequently optimise sales accordingly. In addition, the adoption of a marketing diversification strategy counteracts, up to a point, any adverse market situation.

Environmental risks associated with Group activities

The activities of Estra and other Group companies are subject to Italian and EU regulations on environmental protection and on health and safety, and every activity is performed in compliance with these regulations and with any authorisations requested and obtained. Though Estra's business activities are conducted in compliance with environmental and safety laws, it cannot be excluded however that this and other Group companies might incur costs or be held liable for environmental protection-related situations.

Risks associated with malfunction and/or stoppages of the network and plant infrastructures

In the operating sectors of Group companies the normal provision of services depends on properly functioning infrastructures (such as electricity and natural gas transport/distribution networks) and plants (storage, thermoelectric plants, waste-to-energy plants, etc.). Any suspension or restrictions in the operation of these infrastructures (for example, caused by human error, natural disaster, terrorist act, sabotage, judicial/administrative orders) could lead to total or partial stoppage of activities performed by Estra and the other Group companies, or could increase the costs of conducting such activities.

Risks associated with the expiry of gas distribution concessions/contracts held by Estra and other Group companies

a) *Risks relating to tenders for the award of new gas distribution concessions*

Current sector regulations state that the natural gas distribution service is awarded through tender procedures conducted for each minimum geographic area and according to pre-established times. Estra and the Group manage mainly the gas distribution service in areas that are expected to launch tenders in accordance with these regulations. Though Estra is strongly rooted in its area of operations and benefits from the regime legally awarded during tender procedures to any outgoing service operator (typically the right to an indemnity/reimbursement related to the networks), following tenders that have yet to be launched for award of concessions, Estra might not be able to retain one or more of its concessions, or could be awarded the concessions at conditions less favourable than now, with possible negative effects on the financial position of the Group. The Group owns most of the gas distribution networks in the municipalities in which this service is provided.

b) *Uncertainties regarding the residual life of the gas distribution concessions/contracts held by Estra and other Group companies*

The tenders for the award of the service in geographic areas covered by the concessions currently held by Estra – in the case of compliance with maximum times indicated by the so-called Decree for Criteria (Decree of the Ministry for Economic Development no. 226/2011) and subsequent amendments – will be issued mainly in the next two years. The tenders in question have not yet been issued, nor – according to available information – have significant preliminary procedures been held for the call. For this reason it is not possible to make reliable predictions about the expiry date of the tender procedures and related court actions, or whether they will be launched and whether such tenders would result in suspension of the awardal of the tender. However, it would appear that assignment of the award is not imminent. Uncertainty regarding the exact timing of tender awards could nevertheless result in misalignment of the Group economic and financial flows compared to those forecast.

Liquidity Risk

Liquidity risk represents the risk that Estra and the Group may be unable to meet its payment obligations when they fall due. The Group's liquidity could be damaged by inability to sell products and services, unexpected cash outflows, the obligation to pay more guarantees or inability to access the capital markets. This situation may arise due to circumstances beyond the control of the Group, such as a general market disruption or an operational problem affecting the Group or third parties, or even the perception among market participants that the Group or other participants market are experiencing a more severe liquidity risk. The liquidity crisis and loss of confidence in financial institutions can increase the cost of financing the Group and hinder access to some of its traditional sources of liquidity. The Group Finance Department is centralised in order to optimise the identification and use of financial resources. In particular, the centralised cash flow management in the Group, whether through a cash pooling system or a system of centralisation in the Group current accounts for the prevalence of receipts and payments, allows the allocation of available funds at Group level according to the needs that arise from time to time within the single Companies. The current and forecast financial situation is constantly monitored, as is the availability of adequate credit. The relations held by the Issuer with the main Italian and International Banks allow the identification of the most suitable types of loans and the best market conditions.

Risks associated with debt

Estra and the Group obtains its financial resources mainly through traditional banking channels and using traditional instruments such as medium/long-term borrowings, mortgages, short-term bank loans and credit facilities, and cash inflows from operations as part of trade relations with borrowers for services provided and with lenders for the purchase of goods and services. The net debt of the Group is affected by the seasonality of the business carried out and consequently undergoes significant fluctuations during the year. Debt refinancing risks are managed by monitoring loan maturities and coordinating borrowings with types of investments, in terms of the liquidity of assets in which the Group companies invest. Estra and the Group enjoy a high standing with the banking system, as confirmed by the A3.1 credit rating assigned by the Cerved Rating Agency on 24 December 2015 after an assessment of the company's creditworthiness. It remains implicit, however, that there is no guarantee that in future Estra and the Group will be able to obtain funding with the same methods, terms and conditions granted thus far. This situation could arise due to circumstances beyond Estra's control, such as general disruption of the reference market.
Please refer to Objective anb Criteria for managing financial risk for more information

Interest rate risk

Estra and the Group are exposed to fluctuations in interest rates, especially as regards the extent of financial charges associated with borrowings. They mitigate the risk deriving from floating-rate loans through investments and the use of funds essentially indexed to short-term rates. In addition, the interest rate risk management policy pursues the aim of limiting such volatility by identifying a mix of fixed rate and floating rate medium/long-term loans and the use of IRS contracts signed with financial counterparties of primary standing and which limit interest rate fluctuations. Taking into account the active interest rate risk monitoring policies, any future rise in interest rates should not have particularly negative effects on the financial position of Estra and the Group.
Please refer to Objective anb Criteria for managing financial risk for more information.

Foreign exchange rate risk

At present there is no exposure to risks associated with changes in foreign exchange rates that could have a significant impact on the financial position of Estra and the Group, except as regards the amount reported under commodity price risk.

Commodity price risk

In reference to the characteristics of its operating sector, the Group is exposed to commodity price risk, i.e. the market risk associated with changes in energy raw materials prices (electricity and natural gas) and the related exchange rate, given that its purchases and sales are affected by price fluctuations in energy commodities, either directly or through indexing formulas. Group policy is designed to minimise the risk associated with fluctuating commodity prices by aligning the indexing of commodity purchases with commodity sales, the vertical exploitation of the various business chains and recourse to financial markets for hedging purposes.

Risks associated with relations with Group companies

The Group has maintained, and still maintains, significant commercial relations with investee companies and associates. In particular, Estra provides "common services" consisting mainly of advice and assistance on management (strategic and organisational planning, financial and budget planning, marketing goals and policies, human resource management policy, strategy and practice, production scheduling, planning and control of business management), administrative, accounting and treasury matters. The provision of such services gives rise to no risk other than ordinary market risks.

Risks deriving from current judicial proceedings

Estra and the Group are involved in a number of civil, administrative (mainly related to AEEGSI resolutions/decisions or to public service concessions), tax and labour law proceedings (both as plaintiff and as defendant), relating to ordinary operations in the natural gas distribution sector and the sale of natural gas and electricity, and which are immaterial to the value of Estra and/or the Group. In the presence of current commitments resulting from past events, that could be of a legal or contractual nature or are the result of conduct that could lead to an obligation, Estra and the Group have made reasonable allocations to specific provisions for liabilities and charges over the years that are indicated among liabilities in the financial statements.

Risks associated with leases

Estra and the Group companies have formalised leases necessary for the normal course of business, including, in particular, leases for the company offices in Prato, Siena and Arezzo with partners Consiag, Intesa and Coingas. The leases give rise to no risk other than those ordinary risks related to leases.

Operational risk

Operational risk is the risk of losses caused by errors, infringements, interruptions, damages caused by internal processes, employees or systems or caused by external events. Estra and the Group are therefore exposed to many kinds of operational risk, including the risk of fraud by employees and external parties, the risk of unauthorised transactions by employees or the risk of operating errors, including those resulting from faults or malfunction of the IT or telecommunications systems. The systems and methods for managing operational risk are designed to guarantee that such risks associated with corporate activities are appropriately kept under control. Any disruption or fault on these systems could have a negative impact on the financial position and operating results of Estra and the Group. These factors, especially during economic and financial crises, could result in the company or Group suffering losses, increased borrowing costs, impairment of assets held, with a potential negative impact on the liquidity of Estra and the Group and on its financial soundness. Legislative Decree 231/2001 introduced the regime of corporate administrative liability of entities to Italian law for certain offences committed in their interest or to their benefit by persons holding senior office positions or persons under their direction and supervision. In order to prevent commission of the offences contemplated in the Decree, Estra has adopted its own organisational, management and control model. The Model forms part of a more wide-ranging policy pursued by Estra and the Group to promote fairness and transparency in conducting its business activities and in its relations with third parties, which includes the Code of Ethics already adopted. Estra has also established a Supervisory Board, with independent powers of initiative and control, assigned to supervision of the functions of and compliance with the Model and to promote its constant updating.

Credit risk

The credit risk of Estra and the Group is mainly attributable to the total trade receivables deriving from gas and electricity sales, which are not particularly concentrated as they are spread across a vast number of counterparties such as retail, business and public entities. In conducting its business activities the Group is exposed to the risk

that, as a result of the financial position of the obligated party in relation to the current overall economic-financial crisis, the receivables may not be paid when due. Consequently the risks are attributable to the increase in the seniority of receivables, insolvency risk and the risk of an increase in receivables subject to bankruptcy proceedings with subsequent impairment that could result in the cancellation, wholly or in part, from the financial statements. As a consequence of the persisting economic crisis, the Group has improved its control over credit risk by strengthening its monitoring and reporting procedures, in order to implement countermeasures to be adopted for cases identified as soon as possible. To control credit risk, methodologies have been defined to monitor and manage receivables as well as defining strategies to limit credit exposure, such as customer credit checks at the time of acquisition through credit rating analysis to limit insolvency risk, the assignment of receivables of terminated customers to external credit collection services and the management of legal action on receivables associated with services provided. The payment terms generally applied to customers are governed by legislation or regulations in force and are in line with the standards of the free market; in the event of non-payment, interest on arrears is charged in the amount indicated in the supply contracts and provided by existing legislation. Allocations to provisions for doubtful debts accurately reflect the actual credit risk by itemised quantification of the allocation.
Please refer to Objective anb Criteria for managing financial risk for more information.

Risks related to the failed or delayed implementation of the industrial strategy

The Group intends to pursue a strategy of growth and development, focused in particular on its core businesses – the sale and distribution of gas and electricity, telecommunications and energy services. If the Group is unable to effectively implement its strategy or implement it within agreed time frames, or if the basic assumptions underlying the strategy do not prove to be correct, the Group's ability to increase its revenues and profitability could be affected and this could have an adverse effect on the business and growth prospects of the Issuer, as well as on its economic and financial position.

Information technology risks

Estra and Group activities are managed through complex IT systems that support the main corporate processes, whether operational, administrative or commercial. The inadequacy or failure to update these information systems according to the requirements of the business, their potential unavailability, the inappropriate handling of aspects relating to confidentiality and integrity of the information, represent potential risk factors that the Group mitigates through appropriate measures taken by the Information Systems Department. During 2015, the information systems within the Group were integrated and consolidated. In order to mitigate the potential risks of interruption of the business operations on processes which are considered to be strategic, Estra has secured technological infrastructures that are highly reliable. These infrastructures are guaranteed by maintenance contracts concluded directly with the manufacturers. A back-up policy was also implemented for data protection in compliance with the provisions of regulations on privacy. The confidentiality and security of the information is specifically safeguarded by the Group, both through internal policy as well as through instruments that segregate access to the information.

Risks associated with insurance cover

The Group companies carry out activities that may expose them to the risk of suffering or causing damage that is sometimes is difficult to predict and/or quantify. Although the administrative bodies have acted to take out insurance policies appropriate to the business carried on, in the case of events that for any reason are not covered by insurance or are capable of causing damage of an amount in excess of the cover, the Group companies would be liable for the charges, with consequent adverse effects on the economic and financial position.

14. COMPANY COMPLIANCE AND INTERNAL CONTROL SYSTEM

Estra's internal control system is structured to ensure, through a process of identification and management of the major risks, the achievement of business goals, thus contributing to the reliability of financial information.

Estra is currently coding its own process management and control system in the "Financial Statements" area based on the criteria and principles set forth in Law 262/2005, considering that this methodology is valid and in line with best practice in financial statements matter - even if Estra itself has no obligation to do so.
The coding system has been largely used in 2016 financial statement and currently includes the following elements:

- the identification of the tasks and responsibilities of the functions responsible for the preparation of the accounting documents of the parent company, subsidiaries and the consolidated financial statements on an annual and semi-annual basis;
- interaction criteria with the Planning and Control function;
- operational procedures for the preparation of corporate accounting documents and the definition of relationships with subsidiaries;

As integral parts of the internal control system as a whole, the following components must also be considered:
- The Code of Ethics, which contains the general principles and rules that characterize the organization and which are adhering to the business and market context;
- The organization, management and control model adopted to ensure the prevention of the crimes covered by Legislative Decree 231/2001;
- The rules governing the activity of the company and the group in terms of HSE (quality, environment and safety).

The Company has also initiated a process of defining the integrated risk management model, which is inspired by internationally recognized standards in Enterprise Risk Management (ERM) developed according to the generally accepted international reference model in the control field Internal, issued by the Committee of Sponsoring Organizations of the Treadway Commission (known as CoSO Report).

This ERM model would support the Management in identifying the main business risks and the ways in which facing them, as well as defining the ways in which the system of hedge funds is organized to safeguard these risks.

15. INFORMATION TECHNOLOGY ORGANIZATION

In the programming of IT activities for the two-year period 2016-2017, in accordance with the Estra Group's industrial plan, the projects and initiatives to be addressed during the respective years have been identified. In 2016, during the year of acquisitions, three migration projects were completed and completed by the processes and platforms of the companies acquired in the central platform of the parent company.

During the first half of the year, several projects concerning regulatory compliance (AEEG resolutions) were completed for both the distribution company and the sales companies. In the distribution area, new technologies for the Work Force Management and the graph metric signature have been introduced on official intervention and prompt intervention documents. In the second quarter of the year, we have completed the revision of institutional portals and WEB customer areas with new features for end customers, such as the ability to make an online contract, view the statement and pay the Credit card bills. In the second half of 2016, data analysis was of great importance, significantly developing Business Intelligence, enabling various business levels to have reports and statistics on business performance with custom dashboards.
Bills 2.0 adjustment has been completed

In the year 2017, other projects currently under development were planned for the area of accounting and management control, consolidated budget and planning. For the Marketing area since February, a new, more and more customized communication tool has been introduced to customers; the entire life cycle of the customer is being deployed with innovative software for interaction and management of Commercial data. Systemic side has been done a study and subsequent risk matrix analysis and system access profiles and is in the process of installing software for managing and maintaining user profiles and their access requirements.

16. PERSONELL AND TRAINING

The average staff of 2016, taking into account the number of personnel, is 160 employees. The table below shows the consistency by category and the comparison with 2015:

Position	31/12/2016	31/12/2015
Managers	16	9
Office workers and middle managers	477	400
Factory workers	119	125
Total	**612**	**534**

In Estra Group, promotion of human resources is a key element in close correlation with the strategies and objectives of growth, innovation and development, to create value for the enterprise and to guarantee high standards of quality and safety while respecting the territory.
In all of this, staff training is a key tool not only to provide the necessary professional training to address the challenges of the future, but also to foster and maintain a working environment characterized by a positive climate, collaboration and strong corporate identity.
In the course of 2016, no. 14,167 training hours involved 583 employees. The training involves technical, professional and / or managerial skills based on the analysis of specific individual and business training requirements or compliance with legislative obligations.
The main themes concerned:

- Safety has always been the focus of attention for a total of 3,598 hours;
- Specific subjects, covering specialist time-in- depth, for a total of 6,767 hours;
- Computer field, for a total of 1,698 hours;
- General Updates or Catalog, for a total of 2,108 hours.

Human Resources Department organized trainings and carried out both inside and outside the company's premises, with the support of internal / external trainers, benefiting in part from professional funds.

17. ENVIRONMENT, SAFETY AND HEALTH

During the fiscal year, in order to achieve the defined goals of quality, environment and safety, ESTRA conducted its operations through concrete actions for the reorganization of its control system.

In the course of 2016, internal and planned audits were carried out regularly to maintain and/or recertification the Quality and Environment system with positive results, confirming the current certification UNI EN ISO 9001 and UNI EN ISO 14001 for Estra S.p.A.. As far as the companies belonging to the Group are concerned, Estra Energie: UNI EN ISO 9001, Estra Com: UNI EN ISO 9001- UNI CEI ISO 27001 - OHSAS 18001
Estra Clima: UNI EN ISO 9001 - OHSAS18001- Certificazione UNI CEI 11352 - Regolamento CE 303/208, Centria Reti Gas : UNI EN ISO 9001- UNI EN ISO 14001 - Regolamento EMAS- OHSAS 18001 - UNI EN ISO 11200 - UNI EN ISO 3834/2 - UNI 11024- SAQ 8000.

With regard to the other information relating to the environment and personnel provided by Legislative Decree no. 32/2007, please note the following.

Mandatory information on personnel

There were no:

- Fatal work accidents involving personnel enrolled in the employee register, for which corporate responsibility was positively established;
- Serious accidents at work that resulted in serious or very serious injury to personnel enrolled in the employee register, for which corporate responsibility was positively established;
- Charges in respect of occupational diseases of employees or former employees and anti-mobbing actions for which the company was declared ultimately responsible.

Mandatory information on environment

There were no:

- Environmental damages for which the company was found guilty in the final judgment;
- Final sanctions or penalties imposed on the company for offences or environmental damage.

Information on the preparation and/or updating of the privacy policy document

In view of the provisions of, inter alia, the law of 4 April 2012 the DPS, was formally named the “Document of analysis and definition of privacy-related activities”, and is still subject to periodic and, if necessary, extraordinary review. This occurred in 2014 and a periodic review is already scheduled for the first half of 2015. The document is considered to be the key reference providing a coherent rationale for the preservation of the data within articulated structures (in order to ensure orderly management of privacy) and the tool designed to precisely reconstruct the criteria on which decisions were made regarding the adoption methods of the regulations. The contents of the documents essentially summarize the provisions set forth by the AEEG.

18. RESEARCH AND DEVELOPMENT

Innovation and research in the Estra Group have great relevance in strategic choices and in defining the products and services offered by the Group.

Specifically, the Group is investing in research, development and innovation for optimization, operational efficiency and introduction into its own processes and products of innovative technologies, especially in the gas distribution sector. Partnerships of universities, research institutes and specialized software companies has been embarked on a broad path of reengineering of project and organizational activities in the perspective of the forthcoming contests.
The project saw significant investments by the Group not only in software development and process innovation but also in the development of internal staff skills.

19. ENVIRONMENTAL SUSTAINABILITY

Estra Group carries out its business activities with particular attention to the principles of environmental, social and economic sustainability.
The Group, responsive to corporate social responsibility and sustainability, aims to evaluate the expectations of stakeholders, making them consistent with their business strategies and, for this purpose, considers the respect and protection of the company ' Environment, employee valorization, customer satisfaction, constant dialogue with communities and municipalities, careful supply chain management, transparent communication with shareholders and lenders.
In this context, the Group's main sustainability initiatives, carried out in 2016, includes:

Conferences

Estra participated at the LUISS Integrated Thinking and Reporting in Practice University held in Rome on 16 and 17 November 2016. The conference was an occasion to combine the best corporate thinking and leading academic research on "Integrated Thinking And Reporting". Estra has been among the companies called to witness its experience, opportunities and challenges faced in everyday practice to create corporate value. In particular, the Chairman, Francesco Macrì, during the round table dedicated to unlisted companies, explained to the audience the path of growth, innovation and development undertaken by the company and aimed at creating enterprise value as well as ensuring high standards of quality and safety in the highest respect of the area of action.

Survey, Questionnaires

For the first time Estra participated at the Top Utility Award, a research that analyzes the performance of the top 100 public and private Italian utilities active in the gas, electricity, water and waste sectors, in order to provide a general overview of the utilities industries by delineating trends, changes, excellence and criticality. Estra has been finalist in the Sustainability category, along with Acea, Acque and CAP Group.

Quality in gas and electricity sales services

In 2016, a survey was conducted on the reputation and quality of the services offered that involved domestic and business customers (gas and electricity). The satisfaction result marks an eight (on a scale from one to ten), for historic territories and a seven for newly acquired territories. Clients consider Estra reliable, competent, close to customer requirements, important to local communities. Particularly appreciated are the professionalism and capability of the portfolio personnel, the adequacy and transparency of the offers.
The average waiting time at customer points is 5 minutes, call center is 75 sec. and the service level is 99.

Safety and quality in distribution services

Even for 2016, Centria Reti Gas has been among the first national operators for a small number of gas dispersions and security incentives, an important fact that confirms the quality of the gas distribution service in all its plants.

Safety in seven languages

The text of the brochure *To be safe with gas, it is also up to you* has been updated to use the gas systems correctly and realized under the auspices of the IGC (Italian Gas Committee).
This is an information brochure translated into 7 languages (Italian, English, French, Arabic, Romanian, Albanian and Chinese) to raise awareness and protect all Italian and foreign citizens about the importance of prevention when it comes to gas installations. The brochures are available online, at corporate offices and in the URPs of the

Municipalities served. The teams of the operating teams have been customized by reporting the good practices indicated in the brochure.

Energy production from renewable sources

In 2016, Estra Group companies operate in the renewable energy sector (photovoltaic, wind, biomass) producing 67 million kWh of electricity and 21 million kWh of thermal energy. This avoided the emission of 21,000 tons of CO_2 into the atmosphere.

Electric mobility

Estra invests in electric mobility and inaugurates the first charging column for electric vehicles. Estra's first public access station is located in the car park in front of Prato's corporate headquarters and was followed by the installation of four other columns in the city.
The first electric mobility project of Estra, beyond the Municipality of Prato, will cover Bibbiena (AR), where two columns will be installed shortly, and the Municipality of Siena.
Estra moves the first steps in the field of electric mobility: the presence of the charging infrastructure is the first tool for the spread of sustainable mobility.

Transnational mobility

In order to encourage young people to approach the themes of environmental sustainability, to learn about opportunities offered by green economy through direct experience in the company, the ExTraRES project (Exchange and Training in Renewable Energy Sector) was launched. It consists in the transnational mobility project Students of technical and professional higher education institutions, facilitating contact between students and the world of green-economy European companies.
The biennial project, begun in 2015 and ending in 2016, is part of the European Erasmus + Program. The project offered the opportunity to undertake 2 months professional internship for 105 students and new graduates of 15 Technical and Professional Institutes in four Italian regions (Tuscany, Umbria, Abruzzo and Marche). Foreign host companies, where participants took part in training, were active in renewable energies and environmental sustainability. The participants received the Europass Mobility Certificate, recognized throughout Europe.
In 2016, Estra promoted and obtained funding (also under the Erasmus + Program) of the third project in vocational training in renewable energies and environmental sustainability.
The Power Generation project offers the opportunity to conduct a two-month internship with 168 students and new graduates of 21 Technical and Professional Institutes in 6 Italian regions (Tuscany, Umbria, Abruzzo, Marche, Puglia and Sicily). Participants will attend the training placement, at companies active in renewable energies and environmental sustainability. Participants will receive the Europass Mobility Certificate, recognized throughout Europe. Half of the participants will start in the summer of 2017 and the second half in summer 2018. In addition to the students, 23 Estra professors and staff will also make 1-week visits to foreign companies.

Energicamente

Energicamente is the educational project (at its sixth edition) on energy saving and clean energy for schools, promoted by Estra in collaboration with Legambiente and Giunti Educational Projects.
A great teaching workshop involving more than 6,000 pupils, devoted to studying - having fun - energy and environment "materials" to promote today's awareness of tomorrow and awareness of the need to safeguard resources. Two competitions to reward the most virtuous and the most "green" message promoters Participation in Energicamente is completely free and involves young people from the V classes of primary and lower secondary schools of central Italy (Tuscany, Marche, Abruzzo) and their respective families.
The project also promotes two competitions: Ri-Energy, for families and Green Pirates for classes. The final moment of Energicamente, in May, is the competition prizes, the staging of theater plays by the boys and the Energy Festival which in 2016 was held in the historic centers of Arezzo, Prato, Siena, Teramo and Ancona.

Estra Sport Club and the National Sports Award *Estra per lo Sport Raccontare le buone notizie*

Rugby, hockey, fencing, athletics, cycling, volleyball, baseball and other so-called "minor" sports disciplines that involve many young people every year. To support the realities of the area that have long invested in the formation of athletes of the future, the Estra Sport Club is born. A project that aggregates more than 5,400 athletes from 34 associations operating in 15 sports disciplines.
In 2016, Estra promoted the National Sport Award "*Estra per Sport: Raccontare le buone notizie*": an award for journalists who highlight sport as an educational agency.
The Award was born locally in 2014, named after the Estra Sport Club project and was always held in Arezzo, particularly involving the territory. Estra has decided to give more visibility to the 2016 edition of the award, giving

it a wider national spirit, organizing it in collaboration with the Union Pressione Sportiva Italiana (USSI) and obtaining the patronage of prestigious journalistic and sports organizations.
Three awards were awarded to the best services of the categories "*Television and Radio*", "*Printed Paper*" and "*Web and Blog*" for the national media and the same for the territorial headings of the Tuscany and Marche regions. In addition, the jury awarded three Mention Honors two Special Awards.

Digital citizenship

Estra for the affirmation of a new law: digital citizenship for over 65. "I use the Internet" is a digital literacy project developed by Estra which provides a free 18-hour training course for older citizens 65 years to acquire new digital capabilities through the use of PCs and tablets. The course held in Arezzo in 2015 and continued in 2016 in Siena and Prato has been divided into 6 lessons of 3 hours each, in which they have been given the knowledge to surf the Internet, to create and manage an e-mail box to use Facebook, Skype, and more.
People, men and women, who are 65 years old, are a strategic component of our country. This is related to many factors: the numerical importance (about one-third of the population in our territories), cultural heritage (memory, relationships, and professional knowledge), the ability to aggregate (social and trade union), and quality time to make it available to the social context. These potentialities can be further expressed by the ability to access new media and communication tools. This is the goal of Estra: to facilitate this access and make it fruitful.

20. OTHER INFORMATIONS

Treasury shares/ shares of parent companies

The Group holds no. 500,000 treasury shares, through the subsidiary Eta3, with a nominal value of Euro 500,000. The Group does not own any shares/stakes of parent companies either directly or indirectly or through a trustee.

Corporate Offices

The administrative and legal office of Estra S.p.A. is in Prato, Via Ugo Panziera, No. 16 and secondary administrative offices are located in Arezzo, via Igino Cocchi No. 14 and in Siena, Via Toselli No. 9/A.
Legal, administrative and operative offices of other Group's companies are mainly located in those offices.

Prato, April 20, 2017

For the Board of Directors
Chairman
Francesco Macrì

ONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

Consolidated income statement as of 31 December 2016

Consolidated Income Statement (in thousands of Euro)	Note	31/12/2016	31/12/2015
Revenues			
Core business revenue	10.1	1,007,144	844,871
Other revenue and income	10.1	37,250	76,955
		1,044,394	921,826
Operating costs			
Purchases of goods	10.2.1	760,594	672,266
Services	10.2.2	124,116	66,079
Leased assets of third parties	10.2.3	12,224	15,769
Personnel costs	10.2.4	32,319	31,229
Amortisation, depreciation and impairment	10.2.5	49,262	41,944
Other operating expenses	10.2.6	28,501	26,347
		1,007,016	853,634
Income / (charges) from commodity risk management	10.2.7	(538)	35
Income / (charges) from equity investments of a non-financial nature	10.2.8	470	1,073
OPERATING INCOME		37,311	69,299
Financial income	10.3.1	4,447	4,154
Financial expense	10.3.2	(13,465)	(12,937)
Gains and losses on foreign exchange		(3)	9
Income / (charges) from equity investments	10.3.3	(348)	877
Financial income and charges		(9,368)	(7,897)
INCOME BEFORE TAXES		27,943	61,402
Income taxes	10.4	10,892	24,704
NET INCOME FROM CONTINUING OPERATIONS		17,051	36,698
Discontinued operations	10.5	(2,000)	(1,057)
NET INCOME		15,051	35,641
Attributable to:			
Minority Interests		4,035	1,572
NET INCOME FOR THE GROUP		11,016	34,069

Consolidated statement and other comprehensive income as of 31 December 2016

Consolidated statement and other comprehensive income (in thousands of Euro)	Note	31/12/2016	31/12/2015
NET INCOME		15,051	35,641
Attributable to:			
Minority Interests		4,035	1,572
NET INCOME FOR THE GROUP		11,016	34,069
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Change in cash flow hedge reserve	12.1	67	298
- Gains (losses) on hedge of a net investment		236	351
- Income tax effect		(169)	(53)
Other comprehensive income related to investment accounted for using the equity method	12.3	(90)	126
- Gains (losses)		(119)	232
- Income tax effect		28	(105)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax)		(23)	425
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
- Actuarial Gains (losses)	12.2	(175)	397
- Actuarial Gains (losses)		(230)	522
- Income tax effect		55	(125)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods (net of tax)		(175)	397
Total comprehensive income for the year, net of tax		(198)	821
Attributable to:			
Minority Interests		(3)	19
Group		(195)	802
PROFIT / (LOSS) FOR THE YEAR		14,853	36,463
Attributable to:			
Minority Interests		4,033	1,591
TOTAL COMPREHENSIVE INCOME FOR THE GROUP		10,820	34,871

Consolidated statement of financial position as of 31 December 2016

Consolidated Statement of Financial Position (in thousands of Euro)	Notes	31/12/2016	31/12/2015
Non-current assets			
Property, Plant and equipment	13.1.1	47,882	46,595
Goodwill	13.1.3	12,056	12,056
Intangible assets	13.1.5	336,722	250,874
Investments in an associate and a joint venture	13.1.6	36,229	45,889
Other non-current financial assets	13.1.7	7,502	6,776
Other non-current assets	13.1.8	1,936	969
Deferred tax assets	13.1.9	25,540	24,881
		467,868	388,039
CURRENT ACTIVITIES			
Inventories	13.2.1	15,572	32,945
Trade and other receivable	13.2.2	300,408	251,407
Tax receivable	13.2.3	22,195	8,558
Other current assets	13.2.4	25,310	27,925
Other current financial assets	13.2.5	28,648	18,168
Cash and cash equivalents	13.2.6	299,235	281,404
		691,369	620,407
Assets held for sale	13.3	2,164	3,691
TOTAL ASSETS		1,161,401	1,012,138
SHAREHOLDERS' EQUITY			
Issued capital		205,500	205,500
Share premium		56,787	18,930
Net income for the Group		11,016	34,069
Total Group shareholders' equity		273,302	258,499
Capital and reserves attributable to minority interests		43,183	10,228
Profit for the year attributable to minority shareholders		4,035	1,572
Minority interests		47,218	11,801
TOTAL SHAREHOLDERS' EQUITY	13.4	320,521	270,299
NON-CURRENT LIABILITIES			
Provisions	13.5.1	16,570	15,181
Provisions for employee benefits	13.5.2	7,124	6,627
Non-current portion of long term financial liabilities	13.5.3	334,807	294,589
Deferred tax liabilities	13.5.4	36,109	24,386
Other non-current liabilities	13.5.5	2,771	3,319
		397,382	344,101
CURRENT LIABILITIES			
Current portion of long term financial liabilities	13.5.3	52,143	48,642
Short-term financial liabilities	13.6.1	115,815	104,547
Trade and other payables	13.6.2	194,625	174,567
Tax payable	13.6.3	12,347	9,249
Other current liabilities	13.6.4	36,400	38,929
Other financial liabilities	13.2.5	30,862	19,874
		442,191	395,807
Liabilities directly associated with assets held for sale	13.3	1,307	1,930
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,161,401	1,012,138

Consolidated statement of changes in shareholders’ equity as of 31 December 2016

Note 13.4

Consolidated statement of changes in shareholders' equity (in thousands of Euro)	Shareholder's Equity	Share premium	Legal reserve	Cash Flow Hedge Reserve	Actuarial IAS 19 reserve	Other reserves	Net income of the Group	Group's Capital	Shareholders' Equity attributable to minority interests	Total Capital
As of 31/12/14	205,500	6,510	875	(2,257)		8,110	8,787	227,525	11,984	239,509
Allocation of 2014 profit										
Consolidated profit for the previous year			5,266			(968)	(4,298)			
Dividends							(4,489)	(4,489)	(334)	(4,823)
Acquisition 20,59% Gergas				(7)		599		592	(2,988)	(2,396)
Acquisition Vea and Gastronto									1,550	1,550
Other changes						(1)		(1)	(3)	(4)
Total comprehensive income				422	380		34,069	34,871	1,591	36,463
As of 31/12/15	205,500	6,510	6,141	(1,842)	380	7,740	34,069	258,499	11,801	270,299
Allocation of 2015 profit										
Consolidated profit for the previous year			738			23,347	(24,085)			
Dividends							(9,984)	(9,984)	(831)	(10,815)
Acquisition Prometeo through partial transfer of Estra Energie					(6)	14,003		13,997	32,205	46,201
Other changes					5	(34)		(29)	11	(18)
Total comprehensive income				(25)	(170)		11,016	10,820	4,033	14,853
As of 31/12/15	205,500	6,510	6,879	(1,868)	209	45,056	11,016	273,302	47,218	320,521

Consolidated statement of cash flows as of 31 December 2016

Consolidated statement of cash floews (in thousands of Euro)	2016	2015	Difference
A) Cash flows deriving from management income			
Profit (loss) for the year	15,051	35,641	-20,590
Taxes on income	10,892	24,704	-13,812
Interest expense (income)	9,017	8,783	234
(Gains) Losses from the sale of assets	-	-54,911	54,911
1. Profit (loss) for the year before taxes, interest, dividends and gains/losses	34,960	14,217	20,743
Write-downs of tangible and intangible fixed assets	30,207	18,954	11,253
Write-downs of tangible and intangible fixed assets	2,582	9,304	-6,722
Quota di competenza dei contributi conto impianti	-66	-48	-17
Value adjustments of investments	-122	-1,950	1,828
Value adjustments of activities held for sale	2,000	1,057	943
Severance indemnity provision	218	-55	273
Allocations / (reversals) to provisions for risks and other allocations	1,616	11,337	-9,722
2. Cash flows before changes in net working capital	*71,396*	*52,816*	*18,580*
Changes in working capital			
- Receivables from customers, subsidiaries	7,641	-29,389	37,030
Net inventories	18,648	-4,113	22,761
Trade and other payables	17,390	-8,645	26,035
Other receivables and payables	-33,608	12,070	-45,679
Tax credits, tax liabillities	-17,622	14,592	-32,213
Change in the severance indemnity (net of the allocation)	-202	-1,017	815
3. Cash flows after changes in net working capital	63,642	36,314	27,328
Other adjustments			
Collected interests	4,447	4,154	294
(Paid interests)	-12,541	-10,968	-1,573
(Paid taxes)	-19,393	-11,359	-8,034
(Utilisation of provisions)	-627	-176	-451
4. Cash flow after other adjustments	35,528	17,964	17,564
TOTAL Cash flow of management income (A)	35,528	17,964	17,564
B. Cah flows deriving from investment activities			
Investments / (Disinvestments) in tangible and intangible fixed assets	31,105	55,971	-87,076
Value adjustments in investments	-1,438	-8,893	7,455
Value adjustments in activities held for sale	-1,096	-957	-139
Acquisition or sale of subsidiaries net of cash and cash equivalents	-18,170	-17,204	-966
Altre variazioni da attività di investimento	-214	152	-366
TOTAL Cash flows of investment activities (B)	-52,022	29,070	-81,092
C. Cash flows deriving from financing activities			
Loans from third parties			
Increase (decrease) in non-current financial assets	-2,016	109	-2,125
Increase (decrease) in current financial assets	743	338	405
Increase (decrease) in other non-current assets	-1,728	-11	-1,717
Increase (decrease) in short-term bank loans	-21,039	-46,195	25,156
Opening of new loans	52,000	58,140	-6,140
Repayment of bank loans	-87,402	-42,198	-45,204
Repayment of shareholders loans	-1,435	-1,435	-
Repayment of other lenders	-2,704	-379	-2,325
Bond issue	80,000	100,000	-20,000
Purchase of treasury shares	-11,800	-	-11,800
Transaction fees for new loans	-2,563	-1,785	-778
Own assets			
Payment of dividends from the Holding Company	-9,984	-4,489	-5,495
Other changes relative to financing assets	-831	-334	-497
TOTAL Cash flows of financing activities (C)	-8,758	61,761	-70,520
D) Other changes in liquidity			
Effects on the liquidity of the changes in the scope of consolidation	43,084	2,257	40,826
TOTAL Cash flows from other changes (D)	43,084	2,257	40,826
Increase (decrease) in liquidity (A+B+C+D)	17,832	111,053	-93,222
E) Liquidity at 1 January	281,404	170,351	111,053
F) Liquidity at 31 December	299,235	281,404	17,832
(F) - (E)	17,832	111,053	-93,222

Consolidated income statement – Consob declaration

Consolidated Income Statement (in thousands of Euro)	31/12/2016	Referred to related parties	31/12/2015	Referred to related parties
Revenues				
Revenues from sales and services	1,007,144	6,401	844,871	84,698
Other operating costs	37,250	2,337	76,955	3,665
	1,044,394	8,738	921,826	88,364
Operating costs				
Purchase of goods	760,594		672,266	711
Costs for services	124,116	19,473	66,079	993
Leased assets of third parties	12,224	2,025	15,769	2,000
Personnel costs	32,319		31,229	
Amortisation, provisions and depreciation	49,262		41,944	
Other operating costs	28,501	3	26,347	
	1,007,016	21,501	853,634	3,704
Income / (charges) from commodity risk management	(538)		35	
Portion of income / (expense) for valuation of non-financial long term investments using the equity method	470		1,073	
OPERATING INCOME	37,311		69,299	
Financial revenues	4,447	182	4,154	645
Financial obligations	(13,465)	(457)	(12,937)	(503)
Gains and losses on foreign exchange	(3)		9	
Portion of income / (expense) for valuation of non-financial long term investments using the equity method	(348)		877	
FINANCIAL INCOME AND CHARGES	(9,368)	(275)	(7,897)	142
TOTAL PRE-TAX INCOME	27,943		61,402	
Taxes on income for the year	10,892		24,704	
NET INCOME FROM CONTINUING OPERATIONS	17,051		36,698	
Discontinued operations	(2,000)	(2,000)	(1,057)	(1,057)
NET INCOME FOR THE YEAR	15,051		35,641	
Of which				
MINORITY INTERESTS	4,035		1,572	
NET INCOME FOR THE GROUP	11,016		34,069	

For non-recurring items refer to note “Non-recurring, atypical and / or unusual significant transactions” included in the notes to the consolidated financial statements..

Consolidated statement of financial position (in thousands of Euro)	31/12/2016	Referred to related parties	31/12/2015	Referred to related parties
NON-CURRENT ASSETS				
Tangible assets	47,882		46,595	
Goodwill	12,056		12,056	
Intangible assets	336,722		250,874	
Investments	36,229	36,229	45,889	45,889
Other non-current financial assets	7,502	7,502	6,776	6,776
Other non-current assets	1,936		969	
Deferred tax assets	25,540		24,881	
	467,868	43,731	388,039	52,664
CURRENT FIXED ASSETS				
Inventories	15,572		32,945	
Trade and other receivable	300,408	10,615	251,407	12,239
Tax receivable	22,195		8,558	
Other current assets	25,310		27,925	
Other current financial assets	28,648		18,168	
Cash and cash equivalents	299,235		281,404	
	691,369	10,615	620,407	12,239
Assets held for sale	2,164	2,164	3,691	3,691
TOTAL ASSETS	1,161,401	56,510	1,012,138	68,594
SHAREHOLDERS' EQUITY				
Issued Capital	205,500		205,500	
Share premium	56,787		18,930	
Profit (loss) for the year of the Group	11,016		34,069	
Total Group shareholders' equity	273,302		258,499	
Capital and reserves attributable to minority interests	43,183		10,228	
Profit for the year attributable to minority shareholders	4,035		1,572	
Minority interests	47,218		11,801	
TOTAL SHAREHOLDERS' EQUITY	320,521		270,299	
NON-CURRENT LIABILITIES				
Provisions	16,570		15,181	
Provisions for employee benefits	7,124		6,627	
Non-current portion of long term financial liabilities	334,807	12,545	294,589	13,980
Deferred tax liabilities	36,109		24,386	
Other non-current liabilities	2,771		3,319	
	397,382	12,545	344,101	13,980
CURRENT LIABILITIES				
Current portion of long term financial liabilities	52,143	1,435	48,642	1,435
Short-term financial liabilities	115,815		104,547	
Trade and other payables	194,625	12,269	174,567	7,548
Tax payable	12,347		9,249	
Other current liabilities	36,400		38,929	
Other financial liabilities	30,862		19,874	
	442,191	13,704	395,807	8,983
Liabilities directly associated with assets held for sale	1,307	1,307	1,930	1,930
TOTAL SHAREHOLDERS' INCOME AND LIABILITIES	1,161,401	27,555	1,012,138	24,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

1. CORPORATE INFORMATION

E.S.TR.A. S.p.A. Energia Servizi Territorio Ambiente, abbreviated form "E.S.TR.A. S.p.A. "is a limited liability company registered in the register of companies in Prato, the registered office is located in Via Ugo Panziera, 16 in Prato and the administrative offices in Via Toselli, 9 in Siena and in Via Igino Cocchi, 14 in Arezzo.

The activities of the Company and its subsidiaries are described in the Note "Segment information while information on the Group's structure is provided in Note "Gruop information". Information on other related party relationships of the Group is provided in Note"Related parties disclosure".

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the EU, including interpretations approved by the International Financial Reporting Standards Interpretations Committee (Ifrs Ic), formerly the Standing Interpretations Committee (Sic), as well as measures issued in implementation of article 9 of Legislative Decree no. 38/2005.
The Group has designated as a transition date to the new accounting standards 1 January 2015. The Transition to IAS / IFRS International Accounting Standards, is attached as an appendix to the Notes, describes the effects of the transition to IAS / IFRS accounting standards on the consolidated financial statements at 31 December 2015, which is the last approved.

The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

The consolidated financial statements have been prepared on a historical cost basis, except for trading assets and liabilities and derivative instruments that have been measured at fair value.

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions; the main areas characterized by significant estimates and assumptions, together with those with significant effects on the situations presented, are listed in the section "Significant accounting judgements, estimates and assumptions".

2.2 FINANCIAL STATEMENT

The statement of profit or loss discloses the expenses by nature. This format, followed by the main competitors and in line with international practice, is the one that best represents the company's results.
The consolidated statement of comprehensive income is presented, according to Ias 1 revised, in a separate document compared to the statement of profit or loss, distinguishing between reclassified components and not reclassifiable to the statement of profit or loss. The other components of the comprehensive income statement are shown separately in the statement of changes in equity.

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. The statement of cash flows is prepared with the indirect method, according to Ias 7.

With reference to Consob Resolution No. 15519 of July 27, 2006 regarding the financial statements, specific additional income statement, statement of financial position and cash flow statement has been included, highlighting the most significant relationships with related parties, in order not to alter the overall readability of the budget schemes.

2.3 BASIS FOR CONSOLIDATION

The consolidated financial statements comprise the financial statements of E.s.tr.a S.p.a and its subsidiaries as at 31 December 2016.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.4 SUMMARY OF DIGNIFICANT ACCOUNTING POLICIES

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.
When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.
When a step acquisition takes place, the previously equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting profit or loss is recognized in the income statement.

Any potential consideration is recognized by the acquirer at fair value at the acquisition date. The change in the fair value of the potential consideration classified as an asset or liability as a financial instrument that is the subject of IAS 39 Financial instruments: recognition and measurement, should be recognized in the income statement.
Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.
Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
The Group does not have an interest in a joint operation. If the Group had an interest in a joint operation, as per IFRS 11.20, it would recognise in relation to its interest its:
- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.
The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.
The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.
The aggregate of the Group's share of profit or loss of an associate and a joint venture represents the result net of the taxes and quotas attributable to the other shareholders of the associate or the joint venture and is recognized in the statement of profit and loss before or after the operating result as a function of the correlation between the assets of the subsidiary and those of the entity that prepares the financial statements.
The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

c) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:
- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

d) Fair value measurement

The Group measures financial instruments such as derivatives and futures on commodity trading, at fair value at each balance sheet date. Fair-value related disclosures for financial instruments and where fair values are disclosed, are summarised in the following notes::

- Disclosures for valuation methods, significant estimates and assumptions: Note Significant accounting judgements, estimates and assumptions;
- Quantitative disclosures of fair value measurement hierarchy: Note Derivatives instruments and fair value valuation;
- Financial instruments (including those carried at amortised cost): Note Derivatives instruments and fair value valuation.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability

Or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data areavailable to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as derivatives and futures on commodity trading, and for non-recurring measurement, such as assets held for sale in discontinued operations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.
The specific recognition criteria described below must also be met before revenue is recognized:

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Rendering of services
Revenues from the sale of electricity and gas and water are recognized and accounted for at the time of delivery and include the provision for deliveries made but not yet invoiced (estimated on the basis of historical analyzes determined in relation to previous consumption).
Revenues from gas distribution are accounted for based onthe tariffs recognized by AEEGSI, and are subject to equalization at the end of the financial period to reflect the remuneration recognized by the Authority in respect of the investments made according to the criterion of competence.
Revenues from services provided are recognized based on performance, in accordance with the relevant contracts.

Interest income
For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

Dividends
Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

f) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

g) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

h) Foreign currencies

The Group's consolidated financial statements are presented in euros, which is also the parent company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.
Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.
Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.
The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

i) Non-current Assets Held for Sale, disposal group and Discontinued Operations

Non-current assets held for sale, disposal group and discontinued operations whose carrying amount will be recovered principally through a sale rather than through continuing use are measured at the lower of its carrying amount and fair value less costs to sell. In particular, a disposal group means a set of directly related assets and liabilities destined for disposal within a single operation. Discontinued operations are significant component of the group, such as an important independent business or geographical area of activity or a subsidiary acquired solely on a resale basis. In accordance with IFRS, non-current assets classified as held for sale, disposal group and discontinued operations are presented separately from other assets in the statement of financial position: Assets held for sale and liabilities directly associated with assets held for sale.
Non-current assets held for sale are not depreciated and are measured on initial recognition at the lower of its carrying amount and fair value less costs to sell; an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell is recognized in the income statement.
The Group present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

Further information is given in the Note Discontinued operations and in the Note Asset held for sale**.** All other notes to the financial statements include amounts relating to operating assets, unless otherwise indicated.

j) Cash dividend and non-cash distribution to equity holders

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws of Euroland, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.
Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.
Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

k) Property, plant and equipment

Tangible assets are recognized at purchase or production cost, including ancillary costs, or based on valuation estimates of the company's assets, in the case of acquisition of companies, net of the related depreciation reserve and any impairment losses. Costs of production include direct and indirect costs for the portion reasonably attributable to the asset (eg personnel costs, transport, customs duties, installation costs, testing costs, notary and cadastral charges). The cost includes any professional fees and, for certain goods, the capitalized costs incurred up to the commencement of the asset. The cost includes the possible reclamation costs of the site on which the tangible asset insists, if it complies with Ias 37. Ordinary maintenance charges are expensed in the income statement. Upgrading, modernization and conversion costs that meet the requirements are capitalised as assets. The carrying amount of property, plant and equipment is tested for impairment, especially when events or changes in circumstances indicate that the carrying amount can not be recovered (for details, see Note "Impairment of non-financial assets ").

Depreciation begins when the assets enter the production cycle. Current fixed assets include costs related to tangible assets for which the process of economic use has not yet begun. Tangible fixed assets are systematically amortized on each financial year on the basis of economic and technical rates considered to be representative of the residual possibility of using the assets.

Below are the tables with depreciation rates that have been taken into account for amortization of assets.

Depreciation for gas distribution is calculated as follows:

Category	Rate
Lands	0.00%
Industrial buildings	2.00%
Urban networks and connections	2.00%
Connections	2.50%
Stations	5.00%
Tanks and storage facilities	5.00%
Facilities for remote operations	5.00%
Metering equipment	5.00%

Depreciation for other segments is calculated as follows:

Category	Rate
Heat – District heating network	3.33%
Heat – Thermoelectric plants	5.00%
Heat – Heat management facilities under concession	7-9 years (contractual term)
Telephony – Conduits	2.50%
Telephony – Optical and copper cables	5.00%
Telephony – SDH node, networking access and video surveillance equipment	12.00%
Telephony – Hardware and mobile phones	20.00%

Depreciation for other categories of assets is calculated as follows:

Category	Rate
Lightweight constructions	10.00%
Electronic machines	20.00%
Furniture	12.00%
Equipment	10.00%
Industrial vehicles	20.00%
Other vehicles	25.00%

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

l) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.
The Group operates solely as a lessor. Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

n) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.
Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.
Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.
Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:
- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Patents and licences
Patents and licences are representative of identifiable assets and can generate future economic benefits under the control of the enterprise; These rights are amortized over their useful lives.

Service Concession Arrangements
According to IFRIC 12 infrastructure used in a public-to-private service concession arrangement shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services or the operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. Based on the Estra Group service concession agreements the infrastructure used is recognised under the "intangible asset model". The implementation of IFRIC 12 made it necessary to apply IAS 11 to the same infrastructures, since if the concessionaire constructs or improves an infrastructure that it does not control, the relative construction and improvement services carried out on behalf of the grantor are classified as construction contracts. Therefore, considering that most works are contracted out externally and that on construction activities carried out internally the job margin cannot be identified individually from the benefits included in the remuneration for the service, these infrastructures are reported on the basis of costs actually incurred, net of any contributions paid by the entities and/or private customers.

Depreciation is calculated based on the provisions of the respective agreements and in particular: i) consistently for the lesser period between the economic and technical life of the assets granted and the duration of the service concession arrangements, if at the expiry it is not recognized to the outgoing operator any compensation value (Redemption Value); ii) on the basis of the economic and technical life of the individual assets where, at the expiry of the service concession arrangements, it is foreseen that the assets will become property of the operator.

Gains or losses arising from the alienation of an intangible asset are determined as the difference between the asset's disposal value and the carrying amount of the asset and are recognized in the income statement at the time the related risks and benefits are transferred to the acquirer to property ownership.

o) Financial assets and liabilities

Financial assets include equity investments (excluding investments in subsidiaries, joint ventures and associates) held for trading (ie trading participations) or available for sale, non-current receivables and loans, trade receivables and other receivables originated in business operations and other current financial assets, such as cash and cash equivalents. Finally, financial instruments also include financial debts (bank loans and bonds), trade payables, other payables and other financial liabilities as well as derivative instruments.
Financial assets and liabilities are accounted for as a result of the contractual rights and obligations of the instrument.
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:
- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive the cash flows of the assets but has assumed the contractual obligation to pay them without delay to a third party;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. In addition, the trade receivables considered definitively irrecoverable after the completion of all necessary recovery procedures are also derecognised from the statement of financial position.
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.
When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial assets and liabilities are accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".
Initially, all financial assets and liabilities are recognized at fair value including of ancillary costs (acquisition / issue costs), in the case of assets and liabilities other than those measured at fair value through profit and loss.

Subsequent measurement of the instruments depends on their classification, as described below:

a) *Non-derivative financial assets and liabilities at fair value through profit or loss* includes:
  - Financial assets and liabilities held for trading (HFT), which are acquired for the purpose of selling or repurchasing in the near term;
  - financial liabilities classified upon initial recognition as financial liabilities at fair value through profit or loss;

A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

The Group did not designate non-derivative financial assets and financial liabilities at fair value through profit and loss.

b) Other non-derivative financial assets and other financial liabilities, includes:
  - finanziamenti e crediti Loan and Receivables (L&R);
  - held to maturity investment (HTM);
  - financial liability measured at amortised cost.

Other financial assets and liabilities other than derivatives and investments with fixed or determinable payments are measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. In particular, the solvency of the creditors as well as the credit risk characteristics that is indicative of the payment ability of individual debtors is taken into account in the credit assessment. This category includes held to maturity investments, non-current loans and receivables, trade receivables and other receivables arising from the firm's business, financial debts, trade payables, Other payables and other financial liabilities.

This category is the most relevant for the Group, please refer to the notes Non-current financial liabilities and Short-term financial liabilities.

c) Assets available For Sale (AFS).
Available-for-sale assets are financial assets other than derivative instruments that are not classified as financial assets at fair value through profit or loss or other financial assets. AFS are valued at fair value and the gains or losses are recognized directly in equity until they are written off or realized and transferred to the Income Statement. However, the losses recorded in Shareholders' equity are reversed and accounted for in the Income Statement, even if the financial asset has not been eliminated, when there is objective evidence that the asset has been impaired. Equity investments that are unquoted and non measurable at fair value are instead valued at the cost less impairment losses. Write-downs are reversed in subsequent years if the reasons for their loss arise, with the exception of write-downs of equity instruments. This category essentially includes other equity investments (not joint venture or associated), with the exception of those held for trading.

The Group has not designated as at December 31, 2016 assets available for sale.

d) Derivatives
Derivatives, embedded derivatives included, are measured at their fair values. Gain or loss arising from a change in the fair value of a derivative that is not part of a hedging relationship are recognised in income statement. A derivative is designated as a hedging instrument when there is formal designation and documentation of the hedging relationship and the hedge is assessed on an ongoing basis and determined to have been highly effective. Fair value hedge are measured at fair value and the gain or loss from remeasuring the hedging instrument are recognised in income statement and the gain or loss on the hedged item attributable to the hedged risk shall

adjuste the carrying amount of the hedged item and be recognised in income statement. Cash flow hedge portion of the gain or loss that is determined to be an effective hedge is recognised in other comprehensive income, while the ineffective portion of the gain or loss on the hedging instrument is recognised in income statement.
Changes in the fair value of derivatives that do not meet the conditions to qualify as hedges are recognized in the statement of profit and loss. In particular, changes in the fair value of non-hedging derivatives on interest rates and currencies are recognized in the income statement "Income / financial expense"; Differently, the changes in the fair value of non-commodity hedging derivatives are recognized in the income statement "Income / (income) from commodity risk management".

At each financial statement closing date financial hedging instruments are tested for effectiveness in order to check whether the hedge has the requirements to qualify as effective hedge and to be accounted for in accordance with the hedge accounting principles.

Outstanding financial derivatives were measured at fair value against the forward market curve as of year-end date of the annual financial statements, when the underlying assets were traded on markets that provided a forward pricing structure. In the case where the market does not offer forward prices, forecast pricing curves are based on valuation techniques.

The Group holds derivative financial instruments of the following categories:

- Non-current financial hedging derivatives, mainly referring to interest rate swaps (IRS) contracts to cover the risk of adverse interest rate fluctuations on long-term financing or lease plans. The effective portion of changes in the fair value of derivatives is recognized directly in shareholders' equity in a specific equity reserve defined as "Cash flow hedge reserve", while the ineffective one is recognized in the income statement. Amounts that have been recognized directly in equity are reflected in the comprehensive income statement.
- Commodity Swaps stipulated with the purpose of executing hedges on price indices for volumes sold in order to limit the price risk deriving from specific fixed-price gas purchase transactions and resale at variable price (or vice versa) at different times. Derivatives do not meet the formal, even formal requirements required by IAS 39 to qualify as hedges. The related fair value changes are recognized in the Income Statement.
- Commodity futures on purchase or sale that provide physical gas delivery in subsequent years. Their assessment depends on the classification of the instrument in one of the following categories:
  - Forward contracts related to the trading activity of the subsidiary Exo Energy Trading; these contracts are accounted for under IAS 39 as contracts entered into for trading, speculative and hedging purposes. These contracts are recognized at fair value as of year-end in the income statement (Income / charges from commodity risk management);
  - Forward contracts related to the sale of gas activity of the subsidiary Estra Energie; IAS 39 do not apply to these contracts as they are concluded in order to the portfolio optimisation (so-called “own use”). Such financial instruments are recognised at the time of physical delivery of the underlying commodity.

Outstanding financial derivatives were measured at fair value against the forward market curve as of year-end date of the annual financial statements, when the underlying assets were traded on markets that provided a forward pricing structure. In the case where the market does not offer forward prices, forecast pricing curves are based on valuation techniques.

p) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is the weighted average cost. When required inventories are usually written down or adjusted through the recording of a special provision, to take into account factors of slow-moving or obsolete goods.
The stored gas inventories held for trading activities are carried at fair value, which is measured in accordance with the official prices on the market at the valuation date.

q) Energy Efficiency Certificates

The Estra Group holds Energy Efficiency Certificates for own-use while does not hold certificates for trading.
The certificates purchased in order to meet the annual obligation are recognized as current activities at fair value.
The Estra Group posts a provision for the residual certificates to purchase in order to meet the annual obligation; these certificates are measured based on the difference between the contribution from the Authority (AEEGSI)

and the market value. The cost of the provision is recognized under the “Other operating costs” of the income statement.

The IFRS accounting treatment is the so-called “Net liabilities approach”: the purchase costs are recognised under the “Other operating costs” of the income statement at the time of purchase and the contribution from the Authority (AEEGSI) while revenues are recognized at the time of the cancellation of the certificates under the “Other revenue and income”. The certificates held at year-end are recognized in line with the contribution from the Authority (AEEGSI) for the year as “Other revenue and income” counterbalance “other receivable”.
When the needs exceeds the certificates held at year end (“deficit”), the Estra Group recognises a provision for the burden necessary to meet the residual obligation. The provision is estimated based on any purchase contracts or based on market value.

r) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:
- Disclosures for significant assumptions: Note Significant accounting judgements, estimates and assumptions;
- Property, plant and equipment: Note Impairment test on tangible assets value according IAS 36;
- Goodwill and intangible assets with indefinite lives: Note Impairment test on Goodwill value according IAS 36

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.
In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.
The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group’s CGUs to which the individual assets are allocated. In these budgets and forecast calculations a long-term growth rate is calculated and applied to project future cash flows after the last year provided by the plan.
Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.
Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

s) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group’s cash management.

t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.
If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

u) Post-employment benefits

Termination benefits (TFR) and retirement funds are determined by applying an actuarial methodology. The amount of the rights accrued during the year by the employees is charged to the income statement in the labor cost, while the figurative financial charge that the firm would support if it asked the market for an amount equal to the TFR was attributed to the financial income (loss). Actuarial gains and losses reflecting the effects of changes in the actuarial assumptions used are recognized in the statement of comprehensive income taking into account the remaining average working life of employees.
According to the Financial Law of 27 December 2006 n. 296, for the purposes of IAS 19, only the liability for employee leaving indemnity remained on the holding is valuated, since the maturing installments are paid to a separate entity (Complementary Pension Scheme or INPS Funds). As a consequence of these payments, the company will no longer have obligations related to the work done by the employee in the future.
Benefits granted to employees on coincidences or after termination of employment, through defined benefit plans (energy discount, healthcare, other benefits) or long-term benefits (loyalty bonus) are recognized in the maturity term right.
Defined benefit plans liability, net of any plan assets, is determined by independent actuaries on the basis of actuarial assumptions and are recognized on a case-by-case basis consistent with the work performance required to obtain benefits.

2.5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.5.1 NEW AND AMENDED STANDARDS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2016

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.
The amendments are applied prospectively for annual periods beginning on or after 1 January 2016, with early application permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:
- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are applied for annual periods beginning on or after 1 January 2016, with early application permitted. These amendments do not have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively for annual periods beginning on or after 1 January 2016, with early application permitted. The amendments do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 19 Employee benefits: Employee Contribution
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. When contributions are related to the provision of the service, they should be attributed to the service period as negative benefits. The amendment clarifies that if the amount of contributions is independent of the number of years of service, it is allowed to allow these contributions to be reduced as a service cost reduction during the period in which the service is provided, rather than allocating contributions to Service periods. This amendment had no impact on the Group's financial statements.

Annual Improvements 2010-2012 Cycle
These improvements include:
IFRS 2 Share-based Payment
This improvement applies prospectively and clarifies various points related to the definition of conditions for achieving results and service that represent maturing conditions, including:
- A condition for achieving results must include a service condition;
- A goal of achieving results must be achieved while the counterparty serves;
- A goal of achieving results can refer to the operations or activities of an entity, or those of another entity within the same Group;

- A condition of achieving results may be a market condition or a condition not linked to the market;
- If the counterparty, regardless of the motivation, ceases to serve during the maturing period, the service condition is not satisfied.

IFRS 3 Business combination

The amendment applies prospectively and clarifies that all agreements relating to potential contingencies classified as liabilities (or assets) arising from a business combination must subsequently be measured at fair value with a return to profit or loss, whether or not they fall within the scope of the IAS 39.

IFRS 8 Operating Segments

The modification applies retrospectively and clarifies that:

- An entity should provide information on management evaluations in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of the aggregate operating segments and economic characteristics (eg sales, Gross margin) used to determine whether the sectors are "similar";
- It is necessary to present the reconciliation of sector activities with total assets only if reconciliation is presented at the highest decision-making level, as required for sector liabilities.

IAS 16 Property, plant and equipment ande IAS 38 Intangible assets

The amendment applies retrospectively and clarifies that an asset can be revalued in IAS 16 and IAS 38 for observable data by adjusting the gross carrying amount of the asset to its market value and by determining the market value of the carrying amount and adjusting the gross book value pro rata so that the resulting book value is equal to the market value. In addition, accumulated amortization is the difference between the gross book value and the book value of the asset.

IAS 24 Related Party Disclosure

The amendment applies retrospectively and clarifies that a management entity (an entity providing services to executives with strategic responsibilities) is a related party subject to disclosure of related party transactions. In addition, an entity applying to a management entity must provide information on the costs incurred for management services.

This improvement cycle has had no impact on the Group's financial statements.

Annual Improvements 2012-2014 Cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting

The Group has adopted this improvement and interpretation cycle without significant differences in the consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify

that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. These amendments are applied for annual periods beginning on or after 1 January 2016, with early application permitted. The amendments do not have any impact on the Group.
The Group has not early adopted any standards, interpretations or improvements issued but not yet effective.

2.5.2 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BY THE EUROPEAN UNION BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED BY THE GROUP

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The list refers to the standards and interpretations that the Group expects will be reasonably applicable in the future.The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
In July 2015, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. In 2017, the Group plans to perform a preliminary impact assessment of all three aspects of IFRS 9.

IFRS 15 Revenue from Contracts with Customers
This standard was published by the IASB on 28 May 2014 and adopted by the European Union on September 22, 2016 in Regulation 1905/2016, replacing IAS 18 Revenue, IAS 11 Construction Contracts, SIC Interpretations 31, IFRIC 13 and IFRIC 15. The new standard applies to all customer contracts, with the exception of contracts that fall within the scope of IAS 17 – Leases, insurance contracts and financial instruments. The purpose of the new standard is to establish the criteria to be adopted in order to provide financial statement users with information on the nature, amount and uncertainties associated with revenues and cash flows arising from contracts with customers. This principle applies if the following conditions apply simultaneously:

i. the parties have approved the contract and are committed to performing their respective obligations;
ii. the rights of each of the parties concerning the goods and services to be transferred and the payment terms have been identified;
iii. the contract has a commercial substance (the risks, timing or amount of future cash flows of the entity may change as a result of the contract);
iv. there is a likelihood of cashing and paying the amounts involved in the performance of the contract.

The new principle will apply from 1 January 2018.
This standard was further amended on 12 April 2016: the amendment, which has not yet been adopted and applicable from 1 January 2018, aims to clarify the guidelines for the identification of a bond to sell a good or to provide one or more services, and to provide guidance on the licensing of intellectual property licenses. Regarding the new standards applicable from the reporting periods, evaluations are being carried out for their correct application and analyzes of the impacts expected on future financial statements.
Particularly with reference to IFRS 15, the identification activities of Group companies in scope were initiated and the assessment activities related to customer contracts, business processes and related application systems were planned. A reliable estimate of the effects of the application of IFRS 15 will therefore only be possible when these activities are completed.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases (contracts granting the right to use third party assets) and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers, copy machines,….) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in

future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.
Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17 unless the latter considers the substance of the transaction comparable to the purchase of an asset while IFRS 16 is based on the concept of the right to use a specific asset. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 (the homologation process by the EU is still ongoing). Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospectiveor a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IAS 7 Disclosure Initiative – Amendments to IAS 7
The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:
- Capital management: Note Capital management;
- Financial instruments risk management and policies: Note Financial instruments risk management and policies;
- Sensitivity analyses disclosures: note Financial instruments risk management and policies and Provisions for employee benefits.

3.1 JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Assets Held for Sale and Discontinued Operations

The Group has designated as non-current assets for sale the Polish company Useneko, which operates in the gas distribution business in Poland, and its parent company "Serenia S.r.l. in liquidazione" (winding up), totally owned by the parent company (Estra S.p.A.). With the resolution of 29 March 2012, the Board of Directors of the parent company approved the disposal of both companies.

The Board of Directors considers that the subsidiaries have the characteristics to be classified as assets held for sale or disposal for the following reasons:
- the subgroup constituted by Serenia and Useneko represents a separate geographical area, the only one outside the Italy;
- their book value will be recovered mainly through a sale transaction rather than with its continuing use;
- the asset is available for immediate sale under its current condition, subject to conditions, which are of use and custom, for the sale of such assets and sale is considered highly probable;
- the Management is committed to the divestiture program and negotiations with the potential buyer are in progress;
- the completion of the sale lasted for more than a year for events or circumstances outside the control of the entity related to critical issues emerged in some network reset and contractual regularization of some pass services, preparatory activities for the sale of the company;
- the Group has taken steps to resolve these criticalities in order to implement the company's divestiture program.

As a result of this designation, the subsidiaries have been consolidated in accordance with IFRS 5: the assets and liabilities of the subsidiaries Serenia and Useneko have been consolidated on a single line between "assets/liabilities held for sale" and the effect of the valuation of the same at the estimated realizable value is recorded in a single line as net profit / (loss) from discontinued operations.

For more details on discontinued operations, refer to notes Discontinued operations and Assets held for sale and Liabilities directly associated with assets held for sale.

Joint control of an entity in which the Group holds less than the majority of the shares

The Group share joint control over the company EDMA S.r.l. and its 100% subsidiary EDMA Reti Gas S.r.l. with Multiservizi S.r.l. even though the Group individually hold 45% of the shares. This is because, under statutory provisions and shareholders' agreements requiring the unanimous consent of both parties for decisions relating to the relevant activities, the Group jointly establishes with Multiservizi S.r.l. the financial, managerial and strategic policies of the subsidiary.

Considering the non-financial nature of the investment and the Group's relevant managerial and operational role, the equity method is applied and the profit for the year attributable to the Group is reflected in the statement of profit or loss before the operating result.

3.2 ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

mpairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from forecast and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Impairment test for goodwill in accordance with IAS 36 and Impairment test for tangible assets in accordance with IAS 36.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Defined benefit plans

The cost of the post-employment defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective countries. Further details about pension obligations are provided in Note Provisions for employee benefits.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk and credit risk, if relevant. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note Financial instruments and Strumenti finanziari and Fair value measurement.

Provision for risks and allowance for bad debt

These provisions were made on the basis of the expectations of timely events that will reasonably be expected based on known information and with the support of legal advisers and consultants assisting the Group.

Revenue recognition

Revenues for the sale of electricity and gas are recognized and accounted for at the time of delivery and include the provision for services performed between the date of last reading and the end of the year but not yet invoiced. This provision is based on estimates of customer consumption, based on its historical profile, adjusted to reflect other factors that may affect the estimated consumption.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into Strategic Business Area ("ASA") based on its products and services, qualifiable as operating areas under IFRS 8, as follows:

Natural gas distribution
ASA's activities include the technical and operational management of natural gas distribution networks and liquid propane gas for which it is also provided the marketing thereof.

Sale of natural gas and electricity
ASA's business is represented by the sale on the wholesale and retail markets of methane gas and electricity. Support for commercial areas is ensured by gas and electricity supply, dispatching, storage and logistics, portfolio optimization.

Natural gas trading
ASA's activity is represented by natural gas trading on national and foreign markets.

Other segment
Other ASAs include:
- the technical-operational management of telecommunications networks and their commercialization. Activities also include video surveillance, data transmission, telephony, and internet access services.
- the provision and exploitation of energy production plants from renewable sources with particular reference to photovoltaic, wind and biomass;
- the management of third party property heating facilities (heat management services) and facility management activities.

Other segments have economic characteristics, organizational criteria and different performance but do not exceed the quantitative thresholds that would require separate disclosure.

The Group operates in Italy, with the exception of the discountinued operation of the Serenia Useneko sub-group located in Poland. Given the low significance of discountinued operations, operating sector information is only given for running assets.

Directors separately review the results achieved by segments in order to make decisions about allocation of resources and performance verifications. The performance of the segments is assessed based on the result that is measured consistently with the result in the consolidated financial statements.
Group financial management (including financial costs and revenues) and income taxes are managed at Group level and are not allocated to segments.
Transfer prices between segments are traded internally in similar ways to transactions with third parties.
Directors observe separately assets per segment, while liabilities are observed at Group level.

31 Dec. 2016	Natural gas distribution	Gas and electricity sale	Trading gas	Other Asa	Adjustments	Total 2016
Revenues	93,826	672,811	310,049	22,427	- 54,718	1,044,395
Operating costs	- 69,234	- 616,686	- 309,599	- 17,492	54,718	- 958,293
Investments in an associate and a joint venture	298	172	-	-	-	470
Amortisation	- 11,524	- 17,953	- 37	- 3,275	-	- 32,789
Provisions	- 1,164	- 14,412	- 10	- 887	-	- 16,473
Goodwill adjustment						-
Sector net result	12,202	23,932	403	773	-	37,310
Non-current assets	252,041	142,854	394	72,582	- 4	467,868
Current assets	64,425	370,183	58,863	401,591	- 203,693	691,369
Total assets	316,466	513,038	59,257	474,173	- 203,697	1,159,237
Other information						
Investments in an associate and a joint venture	20,964	7,520		7,746		36,229

31 Dec. 2015	Natural gas distribution	Gas and electricity sale	Trading gas	Other Asa	Adjustments	Total 2016
Revenues	150,438	556,845	261,826	21,441	- 68,725	921,825
Operating costs	- 75,615	- 525,683	- 261,055	- 18,026	68,724	- 811,655
Non-financial investments in an associate and a joint venture	673	399	-	-	-	1,072
Amortisation	- 11,301	- 4,857	- 45	- 12,055	-	- 28,258
Provisions	- 205	- 8,483	-	- 4,999	-	- 13,687
Goodwill adjustment	-	-	-	-	-	-
Sector net result	63,990	18,221	726	- 13,639	- 1	69,297
Non-current activities	237,402	65,459	3,888	81,500	- 210	388,039
Current activities	82,018	297,574	52,266	362,018	- 173,469	620,407
Total activities	319,420	363,034	56,154	443,518	- 173,679	1,008,446
Other information						
Investments in an associate and a joint venture	22,101	15,051		8,737		45,889

Net Income reconciliation

	2016	2015
Sector result	37,310	69,297
Financial revenues	4,447	4,154
Financial obligations	- 13,465	- 12,937
Gains and losses on foreign exchange	- 3	9
Portion of income / (expense) for valuation of non-financial long term investments using the equity method	- 348	877
FINANCIAL INCOME AND CHARGES	- 9,368	- 7,897
TOTAL PRE-TAX INCOME	27,943	61,402
Taxes on income for the year	10,892	24,704
NET INCOME FROM CONTINUING OPERATIONS	17,051	36,698
Discontinued operations	- 2,000	- 1,057
NET INCOME FOR THE YEAR	15,051	35,641

5. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent and minority interests. The primary objective of the Group's capital management is to maximise the shareholder value. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.

The Group monitors capital using a gearing ratio, which is net financial debt divided by consolidated shareholders' equity. The Group's policy is to keep the gearing ratio under 1. The Group includes within net financial debt, cash and cash equivalents, financial receivables and payables, bonds, leases and shareholder loans, excluding discontinued operations. Financial assets and liabilities arising from the fair value measurement of derivative contracts and trading on commodities are excluded from net financial debt.

Net financial position	31 DECEMBER 2016	31DECEMBER 2015
Cash and cash equivalents	299.235	281.404
Receivable from banks	84	351
Current portion of long term financial liabilities	(52.143)	(48.642)
Short-term financial liabilities	(115.816)	(104.547)
Non-current portion of long term financial liabilities	(334.807)	(294.589)
Net financial position (D)	(203.446)	(166.022)
Shareholders' equity (E)	(320.521)	(270.299)
D/E	0.63	0.61

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and bonds, which define capital structure requirements. Breaches in meeting the financial covenants would permit the bank/financier to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest- bearing loans and borrowing in the current period, based on the financial statement for the year ended 31 December 2016.

6. GROUP INFORMATION

Information about subsidiaries

The consolidated financial statements of the Group include:

			31/12/2016				
Business name	Registered office	Currency	Core business activity	Share attributable to the Group	Share of direct control	Share of inderect control	Notes
Parent company							
E.S.TR.A. S.r.l.			Holding				
Fully consolidated subsidiaries							
ESTRACOM S.p.A.	Prato (PO)	Euro	Telecommunication	70.24%	70.24%		
Estra Clima S.r.l.	Prato (PO)	Euro	Heat management services	100.00%	100.00%		
E.S.TR.A. Energie S.r.l.	Siena (SI)	Euro	Natural gas Sale	79.54%	54.32%	45.68%	(4)
ETA3 S.p.A.	Arezzo (AR)	Euro	Holding	66.99%	66.99%		
Biogenera S.r.l.	Prato (PO)	Euro	Renewable energies	65.00%	55.00%	10.00%	(7)

EXO Energy Trading S.r.l.	Siena (SI)	Euro	Gas Trading	47.72%		60.00%	(1)
ESTRA Elettricità S.p.A.	Prato (PO)	Euro	Electricity Sales	47.72%		60.00%	(1)
Gergas S.p.A.	Grosseto (GR)	Euro	Gas Distribution	79.93%	79.93%		
Centria S.r.l.	Arezzo (AR)	Euro	Gas Distribution	100.00%	100.00%		
SOLGENERA S.r.l.	Prato (PO)	Euro	Renewable energies	100.00%	100.00%		
ANDALI ENERGIA S.r.l.	Pizzo Calabro (VV)	Euro	Renewable energies	100.00%		100.00%	(2)
VEA Energia Ambiente S.r.l.	Massarosa (LU)	Euro	Natural gas Sale	79.54%		100.00%	(1)
Gas Tronto S.r.l.	Spinetoli (AP)	Euro	Natural gas Sale	63.59%		79.95%	(1)
Prometeo S.r.l.	Osimo (AN)	Euro	Natural gas Sale	47.40%		59.59%	(1)
Marche Energia S.r.l.	Siena (SI)	Euro	Natural gas Sale	47.40%		100.00%	(6)
Coopgas S.r.l.	Concordia sulla Secchia (MO)	Euro	Natural gas Sale	100.00%	100.00%		
Equity consolidated joint ventures							
EDMA S.r.l.	Ancona (AN)	Euro	Holding	45.00%	45.00%		
EDMA Reti Gas S.r.l.	Ancona (AN)	Euro	Gas Distribution	45.00%		100.00%	(5)
Idrogenera S.r.l.	Prato (PO)	Euro	Renewable energies	50.00%	50.00%		
Nuova Sirio S.r.l.	Siena (SI)	Euro	Renewable energies	50.00%	50.00%		
Companies held for sale/disposal							
Serenia S.r.l.	Arezzo (AR)	Euro	Holding	100.00%	100.00%		
Useneko S.p.z.oo.	Varsavia (Polonia)	Zloty	Gas Distribution	100.00%		100.00%	(3)
Sin.It. S.r.l.	Milano (MI)	Euro	Natural gas Sale	11.05%	11.05%		
Equity consolidated associated companies							
Blugas Infrastrutture S.r.l.	Cremona	Euro	Natural gas Storage	31.17%	31.17%		
Cavriglia SPV S.P.A.	Prato (PO)	Euro	Renewable energies	44.44%	44.44%		
Tegolaia SPV S.p.A.	Fano (PU)	Euro	Renewable energies	49.00%	49.00%		
Casole Energia S.r.l.	Firenze (FI)	Euro	Renewable energies	15.00%		30.00%	(7)
SIG S.r.l.	Ancona (AN)	Euro	Gas Distribution	17.42%		38.70%	(5)
A.E.S. Fano Distribuzione Gas S.r.l.	Fano (PU)	Euro	Gas Distribution	22.05%		49.00%	(5)
Monte Urano S.r.l.	Roma (RM)	Euro	Natural gas Sale	38.97%		49.00%	(6)
Roma Oil Company S.r.l.	Roma (RM)	Euro	Natural gas Sale	23.86%		30.00%	(1)
Piceno Gas S.r.l.	Ascoli Piceno (AP)	Euro	Natural gas Sale	35.79%		45.00%	(1)

Note
(1) through Estra Energie Srl
(2) through Solgenera S.r.l.
(3) through Serenia S.r.l.
(4) 21.20% through Eta3 + 24.47% trough EDMA
(5) through EDMA S.r.l.
(6) through Prometeo S.r.l.
(7) through Estra Clima S.r.l.

Following are presented the main changes compared to 31.12.2015 that took place in the consolidated financial statement:

Subsidiaries:

- Entry in the consolidated financial statement of Prometeo S.r.l. and its 100% subsidiary Marche Energie S.r.l. (not operating), owned 47.40% by the Group, as a consequence of the acquisition of 59.99% by the subsidiary Estra Energie S.r.l., as illustrated at paragraph Acquisition of control in Prometeo S.r.l.. in the management report. Referring to the accounting effects, please refer to Note No. 7,Business combinations and acquisition of non-controlling interests .

- Entry in the consolidated financial statement of Coopgas S.r.l, owned 100% by the Group following the acquisition of the whole capital by the Holding, as illustrated at paragraph Acquisition of Coopgas S.r.l.. in management report. Referring to the accounting effects, please refer to Note No. 7, Business combinations and acquisition of non-controlling interests.

- Reduction of Group percentage in Estra Energie S.r.l., from 91.2% as of 31 december 2015 to 79,54% as of 31 december 2016, following the entry in the social capital of EDMA 24,47% subsidiary, as illustrated at paragraph Acquisition of control in Prometeo S.r.l.. in the management report. As a consequence also the Group percentages in companies controlled by Estra Energie are changed: Estra Elettricità S.r.l. (from 54.67% as of 31 December 2015 to 47.72% as of 31 December 2016), Exo Energy Trading S.r.l. (from 54.67% as of 31 December 2015 to 47.72% as of 31 December 2016), Vea S.r.l. (from 91.12% as of 31 December 2015 to

79.54% as of 31 December 2016) e Gastronto S.r.l. (from 72.85% as of 31 December 2015 to 63.5% as of 31 December 2016);

- Exit from the consolidated financial statement as of 31 December 2016 of Estra Logistica, following the acquisition by Estra Energie. The operation doesn't provoke any effect in the consolidated financial statement;

- Exit from the consolidated financial statement as of 31 December 2016 of Solgenera Tre S.r.l., following the conferment of the whole share capital from Solgenera S.r.l. in Estra Clima and next merger in the last one. The operations don't provoke any effect in the consolidated financial statement;

- Exit from the consolidated financial statement as of 31 December 2016 of Flor Fotovoltaici S.r.l., following the merger in Solgenera S.r.l., its owned holding for 100%. The operation does not provoke any effect in the consolidated financial statement.

Joint Ventures

- Exit from the consolidated financial statement of Nova E S.r.l., following the cession of the investment for 50% owned by the Group;

- Entrance in the consolidated financial statement of Nuova Sirio S.r.l., owned 50% by the Holding, following the split of business branch from Nova E S.r.l., before the conferment of shares of equity, as explained at previous point.

Those variances do not provoke any substantial effect on the financial statement.

Companies held for sale

- Exit from the consolidated financial statement of Blugas S.r.l., owned for 35.72% by the Holding as of 31 December 2015, following the completion of liquidation process. The finalizing of liquidation procedure generated a gain for Euro 134 thousands, accounted in the Income Statement in "Financial Income (expenses) from investments evaluation according the equity method", following the collection of loans previously written off in view of the uncertainty about their recoverability.

Associated companies

- Entrance in the consolidated financial statement of Piceno Gas S.r.l., owned 45% by Estra Energie, as described at the previous paragraph in the management report Other acquisition in the sale of gas ;

- Entrance in the consolidated financial statement of Monte Urano S.r.l., owned 49% by Prometeo, as described at the previous paragraph in the management report Other acquisition in the sale of gas ;

- Exit from the consolidation financial statement of Montedil S.r.l., following the cession of share of equity owned for 32.25% by the Group;

- Exit from the consolidation financial statement of Venticello S.r.l. following the tranfert of share of equity from Nova E. S.r.l. in Solgenera Tre S.r.l., next merger in Estra Clima S.r.l.

- Reduction of control share equity owned by the Group from 27.34% as of 31 December 2015 to 23.86% as of 31 December 2016 in Roma Oil, following the change in voting shares of equity owned by the Group in Estra Energie (associate for 30%), as previously described.

Regarding to accounting effects provoked by operations referring to associated companies, please refer to note Investments.

7. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS

Acquisition in 2016

Prometeo

As described in the significant events of the year, the Group acquired 59.59% of Prometeo, indirectly owned by Estra at 26.82% through EDMA Sr.l. through payment by shares in Estra Energie.

The transaction was carried out through the following corporate transactions, completed in April 2016:
- Increase of the share capital of Estra Energie reserved to EDMA S.r.l. from Euro 13,750 thousand to Euro 17,438 thousand, through the issue of a nominal value of Euro 3,688 thousand with a surplus of Euro 30,871 thousand, made by EDMA through the granting of shares representing the 59.59% of Prometeo S.p.A. to the value of euro 34,559 thousand, as per appraisal prepared for and for the effects of art.2465 1st paragraph of the Civil Code. Following the increase, EDMA S.r.l. has therefore become a member of Estra Energie at 21.15%;
- Sale by Estra S.p.A. to EDMA S.r.l. of a further capital portion corresponding to 3.32% of Estra Energie at a price of Euro 5,430 thousands, with the consequent increase in the holding held by EDMA in Estra Energie from 21.15% to 24.47%.

The transaction involves a simultaneous change in the share of capital in Estra Energie (and its subsidiaries) without loss of control.

The Group has elected to measure the non-controlling interests in the acquiree proportionally to its identifiable net assets.

Assets acquired and liabilities assumed

Prometeo's fair values of the identifiable assets and liabilities as at the date of acquisition, were euro 57,995 thousands, as confirmed by the appraisal reported according to purposes of art. 2465 1st paragraph of the Civil Code, in order to complete the acquisition of 59.59% from EDMA to Estra Energie.

The Fair values of the identifiable assets and liabilities were:

Balance Sheet	Fair value recognized on acquisition
NON-CURRENT ASSETS	
Tangible assets	42
Customer List	67,145
Intangible assets	1,895
Investments	50
Other non-current assets	23
Deferred tax assets	1,945
	71,100
CURRENT ASSETS	
Trade and other receivable	74,950
Tax receivable	2,037
Other current assets	1,901
Cash and cash equivalents	24,774
	103,663
TOTAL ASSETS	174,764

Balance Sheet	Fair value recognized on acquisition
NON-CURRENT LIABILITIES	
Provisions	57
Provisions for employee benefits	329
Deferred tax liabilities	17,028
	17,414
CURRENT LIABILITIES	
Short-term financial liabilities	29,201
Trade and other receivable	25,025
Tax receivable	11,446
Other current liabilities	33,682
Other financial liabilities	
	99,354
TOTAL LIABILITIES	116,769
TOTAL IDENTIFICABLE NET ASSETS AT FAIR VALUE	57,995
Non-controlling interest measured at fair value	(23,436)
Purchase consideration transferred	34,559

With respect to the perceived consideration constituted by 59.59% of Prometeo, the Group sold to third parties representing the 55% of the share capital of EDMA (Multiservizi), a portion of Estra Energie corresponding to 11.58%, resulting in a reduction in the Group's holding of 91.12% to 79.54%.

As regard to the accounting impacts of the transaction, it is a partial disposal of the holding in Estra Energie without the loss of control, resulting in a profit of Euro 14,003 thousand, calculated as the difference between the fair value of the consideration received and the amount of the third-party units attributable to the operation, recognized in equity as required by IFRS 10.B96.

From the date of acquisition, Prometeo contributed, net of intercompany eliminations, to Group revenues of Euro 92,610 thousand, operating income for Euro 1,176 thousand and Group net profit for Euro 1,096 thousand.

If the aggregation had been effective from the beginning of the year, the income statement of the consolidated financial statements as at 31/12/2016 had revenues of Euro 1,066 thousand, operating result of Euro 37,596 thousand, net result of Euro 15,007 thousand.

Coopgas

As described in the significant events of the year, Estra S.p.A. acquired from CPL Concordia Società Cooperativa at a price of Euro 18,170 thousands the 100% participation in the share capital of Coopgas S.r.l., based in Concordia (MO).

The Group has elected to measure the non-controlling interests in the acquiree proportionally to its identifiable net assets.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Coopgas as at the date of acquisition were:

Balance Sheet	Fair value recognized on acquisition
NON-CURRENT ASSETS	
Property, plant and equipment	17
Customer List	16,433
Intangible assets	50
Investments	8
Other non-current assets	
Deferred tax assets	270
	16,779
CURRENT ASSETS	
Inventories	1,275
Trade and other receivable	5,975
Tax receivable	2,839
Other current assets	1,034
Cash and cash equivalents	18,309
	29,433
TOTAL ASSETS	46,212
NON-CURRENT LIABILITIES	
Provisions	
Provisions for employee benefits	130
Deferred tax liabilities	4,736
Long-term financial liabilities over 12 months	7,174
Other non-current liabilities	237
	12,276
CURRENT LIABILITIES	
Long-term financial liabilities within 12 months	6,794
Short-term financial liabilities	3,500
Trade and other receivable	2,488
Tax receivable	189
Other current liabilities	2,795
Other financial liabilities	
	15,766
TOTAL LIABILITIES	28,042
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	18,170
Non-controlling interest measured at fair value	
Purchase consideration transferred	18,170

8. <u>MATERIAL PARTLY-OWNED SUBSIDIARIES</u>

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Business name	Registered office	Currency	Main activity	Proportion of equity interest
Subsidiaries consolidated in full				
E.S.TR.A. Energie S.r.l.	Siena (SI)	Euro	Gas sale	20.46%
EXO Energy Trading S.r.l.	Siena (SI)	Euro	Trading gas	52.28%
ESTRA Elettricità S.p.A.	Prato (PO)	Euro	Electricity sale	52.28%
Prometeo S.r.l.	Osimo (AN)	Euro	Gas sale	52.60%

The summarized financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Consolidated Income Statement	Estra Energie	Exo	Estra Elettricità	Prometeo
Revenues				
Core business revenue	542,065	275,587	110,665	139,163
Other revenue and income	20,727	1,325	3,931	2,250
	562,792	276,912	114,596	141,413
Operating costs				
Purchase of goods	392,815	274,503	98,969	90,852
Services	121,227	762	4,068	38,734
Leased assets of third parties	825		63	187
Labour and related costs	6,883	70	701	1,779
Amortisation, depreciation and impairment	10,730		7,803	6,582
Other operating expenses	916	397	1,162	901
	533,397	275,732	112,765	139,037
Income / (charges) from commodity risk management	1,063	(1,601)		
Income / (charges) from equity investments of a non-financial nature				
OPERATING INCOME	30,458	(421)	1,831	2,377
Financial income	1,962	55	169	328
Financial expense	(877)	(151)	(1,155)	(404)
Gain and losses on foreign exchange	(0)	(2)		
Income / (charges) from equity investments of a non-financial nature				
FINANCING INCOME AND CHARGES	1,085	(99)	(985)	(76)
INCOME BEFORE TAXES	31,543	(520)	846	2,300
Income taxes	11,873	(89)	715	1,244
NET INCOME FROM CONTINUING OPERATIONS	19,670	(431)	131	1,056
Discontinued operations				
NET INCOME	19,670	(431)	131	1,056

Balance Sheet	Estra Energie	Exo	Estra Elettricità	Prometeo
NON-CURRENT ASSETS				
Tangible assets	1,843		3	71
Goodwill	9,044			
Intangible assets	5,091		8,891	11,237
Investments	53,881			1,121
Other non-current financial assets	11,643			
Other non-current assets	1,256	394	14	29
Deferred tax assets	5,904		1,124	2,391
	88,662	394	10,032	14,849
CURRENT ASSETS				
Inventories	6,404	6,242		
Trade and other receivable	183,094	29,362	40,656	62,725
Tax receivable	125	852	4,830	4,068
Other current assets	18,266	109	1,053	808
Current financial assets	7,030	21,535		
Cash and cash equivalents	11,144	782	2,424	6,168
	226,063	58,882	48,963	73,769
Assets held for sale				
TOTAL ASSETS	314,725	59,276	58,996	88,618
TOTAL SHAREHOLDERS' EQUITY	71,106	190	1,241	16,101
NON-CURRENT LIABILITIES				
Provisions	143			169
Provisions for employee benefits	673	3	118	310
Long.term financial liabilities over 12 months	15,104		502	
Deferred tax liabilities	82			
Other non-current liabilities				
	16,001	3	620	479
CURRENT LIABILITIES				
Long-term financial liabilities within 12 months	495		498	
Short-term financial liabilities	60,120	-	4,003	20,634
Trade and other receivable	135,419	35,122	49,197	35,172
Tax receivable	7,088	57	1,510	1,351
Other current liabilities	18,161	1,558	1,926	14,881
Other financial liabilities	6,336	22,346		
	227,618	59,084	57,134	72,038
Liabilities directly associated with assets held for sale				
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	314,725	59,276	58,996	88,618

9. INTERESTS IN JOINT VENTURES

The Group has a 45% interest in EDMA S.r.l., on which the Group exercises a joint control with Multiservizi S.r.l., associated for 55% according to shareholders' agreement.

The Group's interest is accounted for using the equity method in the consolidated financial statements. Summarized financial information of the joint venture, based on its ITA-GAAP financial statements, are set out below:

EDMA CONSOLIDATED INCOME STATEMENT AS OF 31 DECEMBER 2016 (€/000)	31/12/2016	31/12/2015
A) Production value		
1) Revenues from sales and services	28,325	163,068
4) Increases in non-current assets from in-house production	795	1,120
5) Other income:	3,710	3,467
Total production value	32,830	167,655
B) Production costs		
6) For raw and ancillary materials, consumables and goods for sale	781	104,987
7) For services	7,533	26,415
8) For use of third party assets	6,672	7,346
9) For personnel	3,547	4,817
10) Depreciation, amortisation and write-downs	3,565	11,326
11) Changes in the inventories of raw and ancillary materials, consumables and goods for resale	36	(182)
12) Provisions for risks	625	301
14) Other operating expenses	8,132	8,591
Total production cost	30,891	163,601
Difference between production value and production cost (A-B)	1,939	4,054
C) Financial income and charges	2.562	(582)
D) Value adjustments of financial assets	1,533	183
Earnings before income taxes (A-B±C±D)	6,034	3,655
Current, deferred and adavanced income taxes	(644)	(1,699)
23) Profit / (loss) for the year	5,390	1,956
Group profit (loss)	5,390	1,460
Profit (loss) pertaining to minority interests	-	496

EDMA CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2016 (€/000)	31/12/2016	31/12/2015
A) Called up share capital not paid		5,430
B) Fixed assets		
I. Intangible fixed assets	9,755	37,787
II. Tangible fixed assets	28,155	27,960
III. Financial fixed assets	42,938	3,841
Total fixed assets	80,848	69,588
C) Current assets		
I. Inventories	492	528
II. Receivables	26,778	101,286
IV. Cash and cash equivalents	13,524	11,090
Total current assets	40,794	112,904
D) Accruals and deferrals	388	520
TOTAL ASSETS	122,030	188,442
A) Shareholders' equity		
I. Capital	85,228	85,228
Reserves	504	2,063
VIII. Retailed warnings	(2,100)	(4,940)
IX. Profit for the year	5,390	1,460
Group shareholders' equity	89,022	83,811
Capital and reserves attributable to minority interests	-	2,891
Profit pertaining to minority interests	-	496
Shareholders' equity attributable to minority interests	-	3,387
Consolidated shareholders' equity	89,022	87,198
B) Provisions for risks and charges	899	709
C) Employee severance indemnity (Italian TFR)	735	999
D) Payables		
Amounts due to banks	12,362	38,239
Amounts owed to other parties	17,138	59,653
Total payables	29,500	97,892
E) Accruals and deferrals	1,874	1,644
TOTAL LIABILITIES	122,030	188,442

The reconciliation of Joint Venture shareholders' equity (45%) and carrying amount of the investment in the consolidated financial statements is set out below:

	31/12/2016
EDMA Consolidated Equity	**89.022**
Adjustments according to IAS/IFRS FTA	102
Disposal investment in Estra Energie	(41.600)
Disposal intercompany gains	(938)
Adjusted Shareholders' Equity	**46.586**
Share of equity (45%)	**45%**
Value of the investment in the consolidated financial statements	**20.964**

10. COMMENTARY ON INCOME STATEMENTS

10.1 REVENUES

In the financial year ended as of 31 December 2016 and as of 31 December 31 2015, revenues amounted to Euro 1,044,394 thousand and Euro 921,826 thousands respectively. The detail is as follows:

Description	31/12/2016	31/12/2015
Revenues from sales and services	1,007,144	844,871
Other operating income	37,250	76,955
Total	1,044,394	921,826

The following list details revenues from the Group's sales and services:

Revenues from sales and services	31/12/2016	31/12/2015
Revenues from methane gas distribution	17,423	19,392
Revenues from sales of methane gas	761,099	645,224
Revenues from sales and distribution of LPG	3,034	3,166
Revenues from sales of electricity	124,317	95,157
Revenues from telecommunications services	4,091	3,832
Transport, storage and balancing revenues	71,164	58,329
Revenues from other Group operations	13,455	7,538
Increases in non-current assets from in-house production	12,562	12,233
Total	1,007,144	844,871

The increase in revenues was mainly due to the increase in volumes and sales of gas sales and electricity sales, because of the expansion of the customer base and of corporate acquisitions made in 2016.

"Revenues from other Group activities"are mainly represented by the Parent Company's revenues for service contracts in place with Shareholders, associates and jointly controlled companies, and revenues from heat and maintenance management typical of the subsidiary Estraclima S.r.l.

The other revenues and income of the Group are broken down below:

Other operating income	31/12/2016	31/12/2015
Reimbursement of second personnel costs and expenses	1,882	2,237
Revenues for post-metering services and services provided at the delivery point	2,453	1,921
Current portion of contributions received	1,199	778
Use of risk provisions	1,489	
Energy Efficiency Certificates	12,419	7,114
APR adjustment	3,973	
Other revenues	13,725	9,967
Gains extra-feature management	111	54,938
Total	37,250	76,955

The item "Energy Efficiency Certificates" (TEE - Titoli Efficienza energetica) contains the value of the said certificates relative to the year 2016 as tariff contribution pursuant to the AEEG resolutions.

Regarding to "APR adjustment", please refer to the paragraph Mechanism for renewal of long-term provision contracts) contained in management report.

The item "Other revenues" refers to the financial, administrative, legal, information systems and marketing management services performed for associates and jointly controlled subsidiaries. The increase in the period stems from greater performance achieved in 2016.

10.2 OPERATING COSTS

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Raw materials, ancillary materials, consumables and goods for resale	760,594	672,266
Services	124,116	66,079
Use of third-party assets	12,224	15,769
Wages and salaries	32,319	31,229
Amortisation, depreciation and impairment	49,262	41,944
Other operating costs	28,501	26,347
Total	1,007,016	853,634

10.2.1 Purchase of raw and ancillary materials, consumables and goods for resale

Costs for the purchase of raw, ancillary and consumable materials and goods have increased, particularly in the gas and energy sectors, as a result of increased sales volumes and purchase costs.

The most significant component of the item is represented by the purchase of natural gas for Euro 623,910 thousands and electricity transport, storage and balancing for Euro 108,346 thousand, change in stock for Euro 17.051 thousands.

10.2.2 Costs for services

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Costs for gas distribution to users	76,222	29,355
Costs for renovation of third party plants and for tenders and maintenance	8,214	7,941
Professional fees	9,303	7,744
Technical, fiscal, administrative and notary fees and consulting services	5,880	5,167
Costs for advertising and sponsoring the Group's products	2,027	1,144
Costs relative to customer management and for the printing and delivery of bills	4,938	3,018
Insurance	1,546	1,399
Telecommunications services	935	704
Other costs for services	15,051	9,607
Total	124,116	66,079

The item "Costs of gas distribution to users" shows a significant increase over the previous year, mainly due to the growth of volumes distributed, and, starting from September 2015, because of the sale to others of the distribution service in Prato (previously performed by the subsidiary Centria S.r.l.).

10.2.3 Leased assets of third parties

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Gas concession fees	6,954	11,242
Rent companies officers	2,026	1,997
Different rents and fees	3,244	2,530
Total	12,224	15,769

The item "gas concession fees" refers to fees paid to the municipalities responsible for the distribution and measurement service of natural gas, and mainly:

- Euro 2.409 thousands to 77 municipalities responsible for service to Centria S.r.l. and shareholders' Consiag S.p.A. and Intesa S.p.A.;
- Euro 737 thousands to municipalities for service to Gergas (Grosseto and Campagnatico);
- Euro 3,735 thousands to municipalities which received the distribution service by Centria S.r.l., according to concession after public race (Cavriglia, Figline Valdarno, Follonica, Montevarchi, Seravezza).

The item "rent companies officers" refers to costs sustained by the Group to rent companies' officers from shareholders Consiag S.p.A., Coingas S.p.A. and Intesa S.p.A.

The item "different rent and fees" mainly refers to concession fees for gas pipeline crossing and to ULL rents incurred by the subsidiary Estracom S.p.A. required for conducting the telephony business.

10.2.4 Personnel costs

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Wages and salaries	23,378	22,292
Social security contributions	7,357	7,326
Employee leaving indemnity	1,361	1,310
Other costs	79	826
External employees expenses	144	218
Total	32,319	31,229

10.2.5 Amortization, depreciation and impairment

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Amortisation of intangible fixed assets	26,262	15,218
Amortisation of tangible fixed assets	3,944	3,736
Depreciation of intangible fixed assets		9,304
Depreciation of tangible fixed assets	2,582	
Depreciation of trade and other receivable	13,503	8,723
Provisions for risks	2,942	4,841
Other write-downs of fixed assets	28	123
Total	49,262	41,944

For details of items relating to depreciation, amortization and write-downs of current assets, please refer to the tables describing tangible fixed assets, intangible fixed assets and provisions for write-downs shown in the first part of these explanatory notes.

Referring to the write-downs on tangible assets, please refer to paragraph Impairment test on tangible assets value according IAS 36.

The item provisions for risks refers to:

Description	31/12/2016	31/12/2015
Risk provision for technological equipment	180	180
Risk provision for renewable energies sector	2,257	4,611
Risk provision for legal disputes	330	50
Provisions for other risks on investee companies	175	
Total	2,942	4,841

For more details, please refer to commentary notes on financial statement relating to provisions for risks.

10.2.6 Other operating expenses

The item is broken down as follows:

Description	31/12/2016	31/12/2015
CCSE	9,546	11,057
Purchase of Energy Efficiency Certificates	12,056	5,483
Sundry indirect taxes	1,015	1,172
Membership fees	153	147
Other operating expenses	4,910	8,328
Losses on disposals	821	160
Total	28,501	26,347

The item “purchase of Energy Efficiency Certificates” and CCSE (“*cassa conguaglio*”) refers to costs sustained in order to obtain certificates for energy saving to meet the obligation of 2016 and the sums due to the Electricity and Gas Authority for the Electricity Equalization Fund in compliance with Resolution no. 159/08 and subsequent amendments and additions.

10.2.7 Income/(charges) from commodity risk management

This item refers to the change in fair value of forward contracts (in the purchase and sale) used in gas trading and commodity swap type derivatives that cannot be designated as hedging instruments.
More information in note Derivatives instruments and fair value valuation.

10.2.8 Income/(charges) from equity investments of a non-financial nature

This item refers to the Group's share of the result of the joint venture EDMA S.r.l. (associate), valued using the equity method.
Considering the non-financial nature of the investment and the Group's relevant managerial and operational role, the Group's share of the net result for the year, is accounted in the financial statement of profit or loss, before operating profit.

More information about joint venture's economic and financial situation in note Interests in Joint ventures

10.3 FINANCIAL INCOME AND CHARGES

10.3.1 Financial income

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Income from associated companies	184	156
Income from companies under common control	6	494
Income from other companies	4,257	3,503
Total	4,447	4,154

Proceeds from subsidiaries and receivables from non-current financial assets refer to interest on loans granted to jointly controlled subsidiaries consolidated using the equity method.

The item "Other income" relates mainly to the interest accrued on bank and postal current accounts for Euro 2,384 thousands (Euro 2,175 thousand as of 31 December 2015) and interest expense for late payment charged to customers for Euro 1,602 thousands (Euro 1,306 thousand as of 31 December 2015).

10.3.2 Financial expenses

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Interest payable to holding companies	- 398	- 503
Interests and other financial costs	- 13,067	- 12,434
Total	- 13,465	- 12,937

Interest payable to holding companies includes interest expense accrued in 2015 on payables due from shareholders.

Interest and other financial charges are shown in the table below:

Description	31/12/2016	31/12/2015
Interest payable on current bank accounts	- 865	- 1,856
Interest payable on loans	- 4,129	- 4,736
Interest expense on bonds	- 6,866	- 4,743
Interest payable on financial transactions	- 574	- 710
Other interest expense	- 451	- 240
Interest on arrears	- 49	- 35
Interest cost on employee severance indemnity (Italian TFR)	- 133	- 112
Total	- 13,067	- 12,434

10.3.3 Income/charges from equity investments

This item refers to the Group's share of the result of associates or joint ventures, valued with the equity stock, different from those described in note Income/(charges) from equity investments of a non-financial nature

10.4 INCOME TAXES

The item is broken down as follows:

Taxes	31/12/2016	31/12/2015
IRES	16,107	12,224
IRAP	3,856	5,013
Prior year taxes	- 247	
Current taxes	19,717	17,237
Deferred taxes	- 3,185	12,994
Prepaid taxes	- 5,640	- 5,527
Total	10,892	24,704

The Group opted for the taxation system, called the National Tax Consolidation Plan, whose rules are contained in Articles 117 to 129 of the D.P.R. n. 917/1986. This optional tax regime envisages that the holding company is responsible for calculating a single taxable income for the entire Group, corresponding to the algebraic sum of net incomes of the companies covered, and consequently a single income tax payable for the Group companies.
In each fiscal year companies recording a loss have the right to receive as loss compensation an amount equal to the IRES tax rate applicable in that fiscal year, multiplied by the loss in question. Companies recording a surplus of interest expense or excess ROL have the right, if the surplus is used, to receive compensation equal to an agreed percentage of the lower taxes calculated on the surplus used.
Taking into account the changes in the 2014 financial year, the scope of the consolidated tax plan includes the following companies more than 50%: ETA3 SpA, Biogenera Srl, Solgenera Srl, Estra Clima Srl, Estra Elettricità SpA, Centria Srl, Estra Energie Srl , Exo Energy Trading Srl, Andali Energia Srl, Gergas SpA And Estracom S.p.A ..

10.5 NET RESULT FOR ASSETS HELD FOR SALE

The Group has designated as non-current assets for sale / sale the Polish company Useneko, which operates in the gas distribution business in Poland, and its direct controlling company, Serenia S.r.l. In liquidation fully controlled by the Parent Company following the initiation of a divestment / sale of the two companies.

Serenia S.r.l., in voluntary liquidation since May 16, 2012, has continued to work to overcome the technical / legal problems that have been in the subsidiary US.EN.EKO S.p.z.oo. In particular, the activity, even last year, was to overcome the criticalities that emerged in some network restoration interventions and the contractual regularization of some of the passing servants.
These preparatory activities at the disposal of the company have prolonged the completion period of the sale beyond the initial time horizon. The Group remains committed to resolving such issues in order to implement the company's divestiture program.

In the first months of 2017, a conditional sales contract was signed with a Polish company in which the transfer price is variable depending on the completion of certain activities. On the basis of the best estimate made by the Directors, the net recoverable amount of assets held for sale as of December 31, 2016 is 857 thousand euros. The adjustment of net assets to the estimated realizable value resulted in a write-down of Euro 2,000 thousand, recorded in the line Net profit / (loss) from discontinued operations in accordance with IFRS 5. The company is working on the realization of contractual activities that would allow for an improvement in the economic conditions of sale.

Following the result for the year of Serenia S.r.l., consolidated with Useneko, for financial year 2016:

Operating Income	1,053
Operating expenses	1,373

Operating result	-320
Financial Income and charges	-187
Earnings before income taxes	-508
Income taxes	0
Loss for the year	-508

Following the classification, a write-down of Euro 2,000 thousand was recorded for reclassifying the carrying amount of the assets in the disposal group at fair value. The decrease in value was recognized in the statement of financial position (loss) "Net profit / (loss) from assets held for sale".

11. Non-recurring, atypical and/or unusual significant transactions

In the years 2016 and 2015, non-current costs, under Consob Resolution No. 15519 of July 27, 2006, are equal to the tax effects, respectively, at Euro 2,860 thousand (negative) and Euro 389,29336 (positive). The disposition defines those items as "income components (positive and / or negative) arising from events or transactions whose occurrence is not recurring or from those transactions or events that do not occur frequently in the normal course of business ".

The income statement for the 2016 financial year was affected by the following non-recurring income components:
- Amount received as a compensation to APR, recorded in the item Other revenues for Euro 3,973 thousand. Refer to paragraph of the Mechanism for renewal of long-term provision contracts (so called APR);
- Write-down of tangible assets as a result of impairment testing of the biomass cogeneration plant located in the municipality of Calenzano, for Euro 2,582 thousand, recognized as depreciation, amortization and write-downs. Please refer to the Note impairment test on tangible assets value according to IAS 36;
- Increase in the provision for risks to cover the possible burden arising from the expiration of the guarantee given to the GSE in relation to the Andali wind farm, recorded in the amortization, provisioning and write-downs of Euro 2,251 thousand. Refer to paragraph of the Management Report on procedure Andali Energia S.r.l./Terna - National Electric Network S.p.a .;
- Adjustment to the value of presumable realization of net assets of subsidiaries Serenia S.r.l. And Ueneko S.p.z.oo. through a write-down of Euro 2,000 thousand, recorded in the line Net profit / (loss) arising from assets held for sale. Please refer to Note Net Result for assets held for sale.

The income statement for the 2015 financial year was influenced by the following non-recurring income components:
- Gain on the sale of the gas distribution plant in the Municipality of Prato, recorded in the item "other revenues" for Euro 54,911 thousand, plus extraordinary provisions recognized under other operating costs of Euro 3,370 thousand.
- Write-down of intangible assets for Euro 9,333 thousand and provision for risk funds of Euro 2,915 recognized as depreciation, provisions and write-downs, against the risk of non-recoverability of the ongoing investment in the construction of the Andali wind farm.
- Adjustment to the value of presumable realization of net assets of subsidiaries Serenia S.r.l. and Ueneko S.p.z.oo. Through a write-down of Euro 1,057 thousand, entered in the line Net profit / (loss) from assets held for sale.

12. COMMENTARY ON MAIN COMPONENTS OF STATEMENT OF COMPREHENSIVE INCOME

12.1 CHANGE IN CASH FLOW HEDGE RESERVE

This item represents the component of the overall result that captures the change in the "Cash flow hedge reserve" recognized for the effective portion of IRS hedging derivatives.

12.2 ACTUARIAL PROFIT (LOSSES)

This item represents the component of the total result that reflects the change in the "Adjustment Reserve IAS 19", recognized for actuarial profit and losses arising from changes in actuarial assumptions, in severance indemnity assessment, in accordance with IAS 19.

12.3 PORTION OF INCOME (EXPENSE) FOR VALUATION OF NON-FINANCIAL LONG TERM INVESTIMENTS USING THE EQUITY METHOD

This item represents the component of the total result that transposes the change in the "cash flow hedge reserve" of the financial statements of associated companies or jointly controlled by the equity method.

13. COMMENTARY ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

13.1 NON-CURRENT ASSETS

13.1.1 Tangible assets

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Land and buildings	4,607	4,796
Plant and machinery	33,565	34,481
Industrial and commercial equipment	441	501
Other assets	5,212	4,568
Assets under construction	4,056	2,249
Total	47,882	46,595

During 2016 the item changed as illustrated in the table below:

in thousands of Euro	Land and buildings	Plant and machinery	Other equipment	Other assets	Payments on account and assets under construction	Total
Cost or valuation						
As of 1 January 2016	6,832	46,349	2,525	19,979	2,249	77,935
Additions	1	763	59	1,188	2,797	4,809
Disposals	(1)	(374)	(37)	(948)	(8)	(1,369)
Reclassification		201		703	(904)	0
Acquisition of a subsidiary			10	164		174
Transfer		3,237				3,237
As of 31 December 2016	6,832	50,175	2,557	21,087	4,134	84,786
Depreciation and impairment						
As of 1 January 2016	(2,036)	(11,868)	(2,025)	(15,411)	0	(31,340)
Depreciation charge for the year	(190)	(2,284)	(115)	(1,355)		(3,944)
Disposals	1	125	25	928		1,078
Reclassification				78	(78)	0
Acquisition of a subsidiary			(1)	(114)		(115)
Write-off		(2,582)				(2,582)
As of 31 December 2016	(2,225)	(16,610)	(2,116)	(15,875)	(78)	(36,904)
Net book value						
As of 31 December 2015	4,796	34,481	501	4,568	2,249	46,595
As of 31 December 2016	4,607	33,565	441	5,212	4,056	47,882

Tangible assets mainly refer to the following investment activities:
- A wood biomass co-generation plant and the relative district heating network in the Municipality of Calenzano;
- Plant and machinery referring to the electronic and telecommunications systems installed by Estracom S.p.A.;
- The trigeneration plant set in the municipally of Sesto Fiorentino, owned by the subsidiary Estraclima S.r.l.;
- Co-generation plants accounted according to IAS 17 (financial method).

During 2016, it is appropriate to highlights:
- Additions for Euro 4,809 thousand;
- Transfer of photovoltaic plants from Nova E. S.r.l. for Euro 3,237 thousands, as described in management report, paragraph Reorganization of subsidiaries operating in the renewable energy sector;
- Depreciation charge for the year for Euro 3,944 thousands;
- Write-off for Euro 2,582 thousands, as described in the next paragraph.

13.1.2 Impairment on tangible assets according to IAS 36

Directors noted impairment indicators with reference to the biomass cogeneration plant located in Calenzano Municipality, recorded at a book value of Euro 8,215 thousand, following operating results lower than plan estimates mainly due to the need to Modifications Estimates of maintenance costs necessary for proper operation of the plant.

The impairment test consisted of the comparison between the book value recorded in the financial statements and the estimate of the recoverable amount of the asset determined on the basis of its value in use. For value in use, the present value of estimated future cash flows is considered, which is assumed to derive from the continued use of the asset and the disposal of it at the end of its useful life. The value of use was determined

using the financial method (discounted cash flow), which estimates the future cash flows and discounts them on the basis of a proper discounting.
Cash Flow Estimates reflect Estra's best estimates of the main assumptions underlying the Plant Operations for the period 2017-2030 (incentives, production and disposal of electricity, biomass prices, maintenance costs Ed Network extension investments).
Cash flow from disposal at the end of useful life (final value) was estimated at Euro 1,916 thousand on the basis of the prospective value of tangible fixed assets at the end of the year.
The discount rate used to reflect current market valuations with reference to the present value of money and the specific risks associated with the asset has been estimated, in accordance with the cash flow considered, by determining the average cost of capital (WACC) after taxation of 5.5%.

At the completion of these analyzes, the directors recorded a loss of Euro 2,582 thousand during the year, net of accounting, after depreciation of the period, of Euro 8,215 at 31 December 2016, recorded in the Prospectus of the 'Profit / (loss) for the year under the item devaluation of tangible fixed assets.

The calculation of plant’s operating value is particularly sensitive to the following assumptions:
• gross margin;
• discount rate.
An increase in the post-tax discount rate or a reduction in the expected margin will result in a further reduction in the value of the plant.

13.1.3 Goodwill

Goodwill recorded in the consolidated financial statements as of 31 December 2016 (and 31 December 2015) refers to the following business combinations prior to the date of FTA and for which the Group has exercised the option of not retrospectively applying 'IFRS 3:
- Goodwill accounted as a consequence of the acquisition of Gergas S.p.A. relative to the "Gas Distribution" CGU (1,369 thousand Euros);
- Goodwill accounted by the subsidiaries of gas management business by Consiag S.p.A., Intesacom S.p.A. and Coingas S.p.A .; The purchase of the Amag S.r.l., Valdarnotiberinagas S.r.l., Baiengas Commerciale S.r.l. and Offidagas S.r.l. And Esegas: merger deficit by incorporation of Energeia S.r.l. Relative to the CGU "Gas sales" (Euro 10,687 thousand).

The Group carried out impairment testing at December 31, 2015 and December 31, 2016, from which no impairment loss has occurred as described in the following paragraph.

13.1.4 Impairment test on goodwill according to IAS 36

Goodwill acquired through business combinations has been allocated for the purpose of verifying the loss of value of the cash generating units "gas and electricity sales" and "gas distribution", which are also operating sectors on which information is given:

Carrying amount of goodwill and licenses allocated to each of the CGUs

	Gas and electricity sale		Gas distribution		Total	
	2016	2015	2016	2015	2016	2015
Goodwill	10,687	10,687	1,369	1,369	12,056	12,056

The Group carried out its impairment test in December 2016 and 2015.

Gas and electricity sale

The recoverable amount of the cash generating unit Gas and electricity sales was determined based on the calculation of the value in use, in which the cash flow projections of the CGU from the relevant financial budgets were used for the period 2017-2020, approved by management. The expected cash flows take into account the switch-in and switch-off rate of the customer portfolio expected during the plan period. The net discount rate applied to cash flow projections is 5.4% and cash flows over five years have been extrapolated using a 1.5% growth rate assumed as the average growth rate of the business gas and electricity over the long run. At the completion of these analyzes, the directors did not disclose any impairment of the book value of the net assets of the gas and electricity sales unit, including goodwill of Euro 10,687 thousand.

Key assumptions used in calculating the value in use and sensitivity to changes in assumptions
The calculation of the value of use for the Gas and Electricity sales unit is particularly sensitive to the following assumptions:
- gross margin;
- market share during the forecast period;
- discount rates.

Gross Margin - The gross margin is based on the values achieved in the three years prior to the start of the budget period, assuming prudently marginal increases in efficiency. Increasing raw material costs or not achieving efficiency goals could lead to reduced margins than the one in the plan.

Market share assumptions - Management expects the market share in the Gas and Electricity sector to grow in the budget period, also thanks to the commercial investments planned for the maintenance and acquisition of new customers and possible M & A operations. Management acknowledges that the ability to enter new market players or increased competition in the industry may have a significant impact on the growth rate.

Discount Rates - The discount rates reflect the market risk assessment of each cash-generating unit, taking into account the value of money over time and the specific risks of underlying assets that have not already been included in the cash flow estimate. The calculation of the discount rate is based on the specific circumstances of the Group and its operating sectors and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment. The cost of the debt is based on the onerous financing the Group faces. Specific risk to the industry is embedded with specific beta factors. Beta factors are reviewed annually based on available market data. Discount rates are adjusted to take into account the specific amounts and times of future tax flows so as to reflect a post-tax discount rate.

The sensitivity analysis that was developed focused on the margins of the CGU, assuming a 5% decrease, resulting in a reduction in cash flows developed in the next and subsequent years, and an increase of 0.5% WACC. The obtained values are also in such cases higher than the loads of the CGUs, so the analysis further confirmed for the CGU gas sales and electricity the enrollment value.

Gas distribution

Goodwill arises from the acquisition of Gergas, a company operating in the gas distribution of the municipalities of Grosseto and Campagnatico.

Goodwill is insignificant when compared to the total book value of assets allocated to the Gas Distribution Unit. Also in view of the uncertainties that still lie about the timing for the launch and the performance of the tenders and the uncertainty about their renewal (see paragraph of the Report on Operations "Risks related to the expiration of concessions/gas distribution disbursements of which they are Holders of Estra and other Group companies "), the Directors considered that goodwill would be subject to impairment test by comparing the recoverable amount of the gas distribution assets with their recoverable amount determined using the fair value less cost to sell. The comparison was done both at the gas distribution CGU level and at a lower level relative to the ATEM alone of Grosseto.
For this purpose an independent expert has been appointed to estimate the industrial plant value, to be used as a reference value for determining the right to indemnity / reimbursement for networks where, as a result of the tenders that will be initiated for the assignment of Concessions, the Group will lost the ownership of its concessions.

The recoverable amount thus determined is higher than the book value of the assets, also by applying reasonable downward sensitivity factors to the Industrial Value. At the completion of these analyzes, the directors did not disclose any impairment of the book value of the net assets of the Gas Distribution Unit, including goodwill of Euro 1,369 thousand.

13.1.5 Intangible assets

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Concessions, licenses, trademarks	4,913	3,929
Expenses for concessions	218,598	215,729
Users	96,039	18,022
Other intangible assets	15,155	11,344
Current intangible assets	2,017	1,851
Total	336,722	250,874

During 2016 the item changed as illustrated in the table below:

in thousands of Euro	Concessions, licenses, trademarks	Expenses for concessions	Users	Other intangible assets	Current intangible assets	Total
Cost or valuation						
As of 1 January 2016	27,078	333,670	18,563	14,420	2,137	395,868
Increases	4,263	12,574	207	10,530	166	27,740
Disposals	(107)	(2,381)				(2,488)
Reclassification						0
Acquisition of a subsidiary	1,213		83,825	726		85,764
As of 31 December 2016	32,447	343,862	102,595	25,677	2,303	506,884
Amortisation and depreciation						
As of 1 January 2016	(23,149)	(117,941)	(541)	(3,076)	(286)	(144,994)
Amortisation for the year	(4,384)	(8,659)	(5,803)	(7,416)		(26,262)
Disposals		1,335				1,335
Acquisition of a subsidiary			(212)	(29)		(241)
As of 31 December 2016	(27,533)	(125,264)	(6,556)	(10,522)	(286)	- 170,162
Net book value						
As of 31 December 2015	3,929	215,729	18,022	11,344	1,851	250,874
As of 31 December 2016	4,913	218,598	96,039	15,155	2,017	336,722

The item Concessions, licenses and trademarks mainly refers to third-party software licences are amortised over 3 years.

The item Expenses for concession relates to networks, plant and other assets related to gas distribution, accounted for under the "intangible asset method" provided by IFRIC 12 for concession relationships with the granting entities.

The item Customer Lists mainly relates to the evaluation according *purchase price allocation ("PPA")* on customer lists derivate from acquihired companies.

The item Other intangible assets Is mainly related to the costs incurred for the promotion and development of the market by the Group's commercial companies.

The item Intangible assets under construction mainly refers to costs for works and preliminary works for the construction of the wind farm at Andali (CZ) sustained at year end by the subsidiary Energia Srl Andali. As described in commentary on provisions, the risk for not recoverability on those costs is accounted in the dedicated provision.

In the course of the year 2016, we highlight in particular:

- Increases for the year of Euro 27,740 thousands;
- Acquisitions from company acquisitions of Coopgas S.r.l. e Prometeo S.p.A. for Euro 85,764 thousand, as described in the Notes Business Combinations and Acquisitions of Minorities;
- Depreciation for the year for Euro 26,262 thousands.

Intangible assets with a definite useful life are not deemed to be impaired, except for the above for the current intangible asset item.
In particular, it is noted that from technical valuation valuations emerged an Industrial Value of networks, plants, connections and other capital assets related to gas distribution largely greater than the net book value of the consolidated financial statements.

13.1.6 Long term investments

The item is broken down as follows:

Investments in companies under common control	31/12/2015	Others	Increase/ (Decrease)	Evaluation/ (Depreciation)	31/12/2016	Notes
Idrogenera S.r.l.	11			-3	8	
EDMA S.r.l.	37,107	-16,613		470	20,964	1
Nuova Sirio S.r.l.		46			46	2
Total investments in companies under common control	37,118	-16,567	-	467	21,018	

Investments in associated companies	31/12/2015	Others	Increase/ (Decrease)	Evaluation/ (Depreciation)	31/12/2016	Notes
Blugas Infrastrutture S.r.l.	7,550			-312	7,238	
Piceno Gas Vendita S.r.l.			6,382	-	6,382	3
Cavriglia SPV S.p.A.	288	-16		-56	217	
Sinergie Italiane S.r.l.					-	
Roma Oil S.r.l.	45			23	67	
Monte Urano S.r.l.			1,071		1,071	3
Tegolaia SPV S.p.A.	137	48		-149	36	
Montedil S.r.l.	750		-750		-	4
Total investments in associated companies	8,771	32	6,703	-494	15,012	

Investments in other companies	31/12/2015	Others	Increase/ (Decrease)	Evaluation/ (Depreciation)	31/12/2016	Notes
Other companies		8			8	
Casole Energie S.r.l.		177		15	191	5
Total investments in other companies	0	185	0	15	199	

Total investments	45,889	-16,350	6,703	-12	36,229	

1. Share of equity in EDMA moves from Euro 37,107 thousand to Euro 20,964 thousand, as well as due to the Group's share of the result for the period, for the full consolidation of Estra Energie Srl, of which the subsidiary has become partner at 24.47% as described in the management report, paragraph Acquisition of control in Prometeo Srl;

2. Share of equity in Nuova Sirio S.r.l. derived from splitting of a Nova E S.r.l. relating to the ownership and management of three photovoltaic plants;

3. Investments derived from acquisition of 45% shares equity in Piceno Gas S.r.l. and of 49% in Monte Urano S.r.l., as described in the management report, paragraph Other acquisitions in gas sales sector. Currently, shareholders did not approve the financial statements for the year 2016 and the investments were recorded at cost on acquisition in the consolidated financial statements as of 31 December 2016. On the basis of the preliminary results, their valuation based on equity method, would not have significant effects on the income statement and on the Group's balance sheet;

4. The share equity, corresponding to 32.25% of Montedil S.r.l. equity, was sold during financial year 2016, as described in management report, paragraph Reorganization of subsidiaries operating in the renewable energy sector.

5. The share equity, corresponding to 15% of Casole Energia S.r.l. equity, derived from transfer of Nova S.r.l. before its exit from Estra Group, as described in management report, paragraph Reorganization of subsidiaries operating in in the renewable energy sector.

Variances in other investments is a result of the adoption of equity method.

With regard to Blugas Infrastrutture S.r.l., the investment accounting value is major than its corresponding share equity as of 31 December 2016, for Euro 2,639 thousands, as a consequence of the allocation of the highest purchase price to the assets of the company represented by:
- Profit sharing for 10% in the project dedicated to the realization and operation of the storage facility at San Potito and Cotignola, in the province of Ravenna, with 90% Edison Stoccaggio partner, following a special concession ("San Potito and Cotignola Stoccaggio") conferred by the Ministry Of Economic Development with DM Of 24/04/2009;
- Property right on 70 Mc Natural gas, on extraction in Abbadesse vein.

Concerning the San Potito and Cotignola project storage, it should be noted that, following the discovery of a more complex geological situation than expected, Edison Stoccaggio required a significant revision of the originally authorized project, with consequent reduction in capacity estimation of storage. In the light of this new scenario, AEEGSI with Determination 66/2016 of 25/02/2016, recalculated tariffs with a new penalizing mechanism (of dubious legitimacy), in order to reduce the capex revenues of the site (calculated on Based on the ratio of investment realized / earnings achieved). The new mechanism should be applied each year until completion of the site management (scheduled in 2019), while providing for a partial reconciliation of the lower revenues received, depending on the space benefits that the grant will guarantee. For the sake of 2015 alone (always on the basis of resolution 531/2014/R/gas), the Authority has subjected the recognition of certain revenue components (amortization and incentive share) to the "commercial" site, that is, the date on which the site began commercially, offering its capacity for storage services (2015). Actually translating the recognition of such components for a year (from 2016 onwards).
In order to protect its interests, as of 20 April 2016, Edison Stoccaggio filed a motion of appeal with the President of the Republic and the Authority, with an extraordinary appeal with Resolution 257/2016/C gas as of May 26, 2016 / R / 2016, it upheld the appeal against the extraordinary appeal of the President of the Republic proposed by Edison Stoccaggio, requesting it to be brought before the TAR as an ordinary remedy, i.e. in court.
Notwithstanding the fact that the company considers its arguments to be valid, the estimates made on the impacts on revenues by project multiannual plan do not take into account both the positive economic outcomes and the surplus value implied in the company's assets, which has not been devalued by impairment of the equity investment and loan receivables.

Regarding the 11.05% holding in Sinergie Italiane Srl, it is recalled that the company was liquidated by a resolution of 13 April 2012. Previously on March 29, 2012, the Shareholders' Meeting had recapitalized the company for Euro 88.7 million and reconstituted the share capital of Euro 1 million by injection of Euro 89.7 million. During the year 2016, the company continued its business mainly limited to the purchase of gas from the Russian supplier Gazprom Export LLC and resold to the subsidiary companies owned by Estra Energie S.r.l. for the partner Estra S.p.A. The company closed the interim balance sheet at 30 September 2014, drawn up in accordance with the provisions of art. 2490 of the Italian Civil Code, showing negative shareholders' equity of Euro 12.8 million (Euro 15.1 million at 30/09/2015) after liquidation adjustments of Euro 32.8 million and Euro 2.9 million profit.
Given the positive outlook for the coming years, as confirmed by the first quarter results, from 1st October 2016 to 31 March 2017, it is reasonable to predict a return on the balance sheet of the company's assets by future profits that can fill the Current deficit. In the present consolidated financial statements, it was therefore considered unnecessary to retain any amounts that had been allocated in respect of the other risks funds included in the note provisions.

Investments are not subject to pledges or bonds, with the exception of the share capital held in Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A., respectively for nominal Euros 1,047,778 and Euro 534,313, pledged to Banca Etruria, to guarantee the financing of project funding disbursed.

13.1.7 Other non-current financial assets

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Loans to companies under common control	5	1,270
Loans to associated companies	7,497	5,506
Total	7,502	6,776

The following tables show the composition of the loans per share and their movements with respect to the closing of the previous year:

Loans to companies under common control	Value 31/12/2015	Increase	Decrease	Value 31/12/2016
Nova E. S.r.l.	1,270	20	(1,290)	0
Nuova Sirio S.r.l.		5		5
Total	1,270	25	(1,290)	5

Receivables from associated companies	Value 31/12/2015	Increase	Decrease	Gross value 31/12/2016
Cavriglia SPV S.p.A.	2,183			2,183
Tegolaia SPV S.p.A.	1,161			1,161
Blugas Infrastrutture S.p.A.	2,099	2,054		4,153
Montedil S.r.l.	62		(62)	0
Total	5,506	2	(62)	7,497

Loans at 31/12/2016 against Nova E S.r.l. are zero as they were the subject of transfer to Solgenera 3 S.r.l., subsequently merged by incorporation into Esta Clima S.r.l., a wholly consolidated company. Loans Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A. are represented by the shares of E.S.TR.A. S.p.A. Of the loan granted by the members, in accordance with the approved Economic and Financial Plan, for the realization of photovoltaic plants in the municipality of Cavriglia. Financing was non-interest bearing in the 2016 financial year. The loans to Blugas Infrastrutture S.r.l. as of 31/12/2016, derive from the provision of loans to support the company's financial need involved, with a 10% joint venture with Edison Stoccaggio, in the project for the construction and operation of storage facility at the site of San Potito and Cotignola,(Ravenna), following a special concession. There was an increase of Euro 2,054 thousand in the course of the year 2016. Financing increased interest to 3.5% in 2016.
It should be noted that during the year 2016, at the end of the liquidation procedure of the underwriting company, 134 thousand euros of the loans granted to the Blugas S.r.l. have been collected, entirely devalued at the end of the previous financial year, due to uncertainty as to their recoverability. The capital gain of Euro 134 thousand was entered in the income statement under the item "Share of income/ (charges) for the valuation of financial investments according to equity method".

13.1.8 Other non-current assets

Other non-current assets amount to Euro 1,936 thousand (Euro 969 thousand as of 31 December 2015) and mainly refer to long-term guarantee deposits issued to the Customs Agency by the subsidiary Estra Energie S.r.l. and in favor of various suppliers for gas sales and storage activities.

13.1.9 Deferred tax assets

The table below shows the composition of deferred tax assets and their movements compared with the close of the previous year:

Temporary difference	Prepaid taxes 31/12/2015	Changes in consolidating area	Utilisation	Impairment	Prepaid taxes 31/12/2016
Excess amortisation	4,161		(74)	524	4,611
Other risk provisions	1,530		(249)	1,873	3,155
Taxable portion of the provision for write-downs	5,770	2,197	(141)	2,095	9,921
Contributions received on connections	2,733		(97)	563	3,198
Write-down of fixed assets	1,271		(505)	744	1,510
Provision for early retirement of employees	511		(146)		365
Leasing IAS 17	189			20	209
Excess interest expense	475		(244)		231
Other	669	3	(458)	511	726
Immaterial assets write-down IAS 38	886	7	(256)	(6)	632
Loans amortised cost	29		(6)	6	29
IRS Derivatives fair value	648		(95)		553
Derivatives on commodities fair value	5,802		(5,802)		
Severance indemnity discounting	89	8	(0)	66	162
Disposal intercompany net income	116		(32)	155	239
Total	24,881	2,215	(8,106)	6,551	25,540

The Group has accounted for the deferred tax assets relating to temporary differences between values which are significant for tax purposes and balance sheet values for which it considers probable that future taxable amounts will absorb the temporary differences that generated them. In determining deferred tax assets, reference was made to the IRES tax rate (corporate income tax) and, where applicable, the IRAP tax rate applicable at the time the temporary difference are expected to be reversed.

The 2016 Stability Law provides, as from the 2017 tax period, a reduction of the IRES tax rate from the existing 27.5% to 24%. The provision thereafter entailed the adjustment of deferred tax assets on temporary variations already present a reduction in applied taxation.

Deferred tax assets have been recognized since it is likely that tax revenues will be sufficient to allow them to be recovered.

13.2 CURRENT ASSETS

13.2.1 Inventories

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Materials inventories	2,816	3,068
Natural gas storage inventories	12,646	29,661
LPG inventories	303	359
Provision for devaluation of stocks	(193)	(143)
Total	15,572	32,945

Inventories mainly refer to:

- Spare parts for the maintenance and operation of gas distribution plants for Euro 2,027 thousand as of 31 December 2016 (Euro 2,313 thousand as of 31December 2015), recorded at cost of acquisition or manufacture, including ancillary costs. The value is shown net of a provision for impairment of Euro 193 thousand as of 31 December 2016 (Euros 143 thousand as of 31December 2015) determined on the basis of the possibility of using or making stocks;
- Storage gas for final customers, valued at the lower of the acquisition cost, including ancillary costs, and the estimated realizable value of the market for a total of Euro 6,404 thousand (Euro 27,236 thousand as of 31December 2015);
- Trading gas, amounting to Euro 6,242 thousand (Euro 2,425 thousand as of 31 December 2015), measured at fair value measured against official quotations at the end of the year.

13.2.2 Trade receivables

The item is broken down as follows:

Description	31.12.2016	31.12.2015
From customers	289,804	239,168
From companies under common control	6,058	9,440
From associated companies	1,117	1,138
From shareholders	3,429	1,661
Total	300,408	251,407

Trade receivables relate mainly to receivables from customers for the supply of natural gas and energy.

The adjustment of the nominal value of receivables at the expected realizable value was obtained through a provision for impairment made in consideration of the risk of non-payment of certain receivables. Fund movements are shown in the following table:

Description	Balance
Provision for write-down 31.12.2015	27,808
Change in the scope of consolidation	10,230
Uses during the year	- 6,043
Allocations for the year	13,503
Provision for write-down 31.12.2016	45,498

For the details of receivables from Shareholders, companies subject to joint control and related counterparty, refer to the table of relationships with related parties to the Related Related Reports.

For terms and conditions related to receivables from related parties, please refer to the paragraph on the Report on Related Party Transactions.

The terms of payment generally applied to customers are based on existing regulations or regulations and in line with free market standards; In the event of non-payment, the default interest shall be charged to the extent indicated in the contract of delivery and established by the applicable law.

13.2.3 Tax receivables

The item is broken down as follows:

Tax credits	31/12/2016	31/12/2015
VAT credit	10,891	6,909
IRES/IRAP credit	1,187	934
UTIF	9,360	0
Other tax credits	758	715
Total	22,195	8,558

The significant increase in tax receivables is mainly due to the closing in 2016 with a consumer tax and additional tax credit resulting from the difference between advances paid during the year, determined on the basis of the consumption of the year 2015, Tax actually charged to customers in 2016.

The item "other tax credits" is mainly related to the IRES credit for non-deduction of personnel cost.

13.2.4 Other current assets

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Receivables from AAEG and GSE	13,506	13,976
Advances	5,411	2,549
Credit for LPG tax breaks	0	942
Other receivables	3,690	3,679
Guarantee deposits	815	3,369
Electricity regional contribution	-	1,204
Accrued income	1,888	2,206
Total	25,310	27,925

The item "Credits to Energy Authorities" is mainly related to the amounts due under the equalization mechanism in relation to the constraint on total distribution revenues and for contributions related to the achievement of energy savings targets.

The item "Credits for GPL" indicates the credits for the recovery of the deferred payment of GPL charges to end customers. With reference to the item, there were difficulties for the company to obtain repayment by the Customs and Monopoly Agency for instances relating to previous years. Receivables, which were deemed irrecoverable at the end of the year, were eliminated by using the provision for doubtful debts.

The item "Advances" mainly includes the payment made by the Parent Company in favor of the Municipality of Prato for Euro 1,700 thousand against the agreement signed on 17/11/2011, as per paragraph Update on the main litigation in progress.

The item "Guarantee deposits" mainly refers to deposits paid in favor of Sinergie Italiane S.r.l. From the subsidiary Estra Energie S.r.l. In the face of commercial supplies of the current thermal year.

Receivables recognized in current assets are all due within the year.
All claims are against entities operating in Italy, with the exception of amounts not relevant to CEE and Extra-CEE entities for gas marketing.
It is further stated that:

- There are credit and debit items to the same subjects that have been separately recorded between receivables and payables as they are not countervail able under the law for precise arrangements between the parties;
- There are no receivables subject to restrictions or restrictions of any kind or receivables in respect of which it was considered to be discounted in accordance with the correct accounting principles;
- There are no transactions with a forward-back obligation;
- There are no foreign currency claims.

13.2.5 Other current financial assets and liabilities

The item is broken down as follows:

Other financial assets	31/12/2016	31/12/2015
Bank credits for active interests	84	351
Derivatives	28,564	17,817
Total current financial assets	28,648	18,168

Other financial liabilities	31/12/2016	31/12/2015
Derivatives	30,862	19,874
Total curren financial liabilities	30,862	19,874

Bank credits refer to interests accrued on cash on financial year-end, accredited by banks on a later date.

Derivatives included in other current financial assets are broken down as follows:

Derivatives (Current financial assets)	31/12/2016	31/12/2015
Commodities foreign exchange forward contracts	27,310	16,388
Commodity Swap	1,254	1,429
Total derivatives	28,564	17,817

Derivatives included in other current financial liabilities are broken down as follows:

Strumenti derivati (Current financial liabilities)	31/12/2016	31/12/2015
Commodities foreign exchange forward contracts	28,545	11,233
Commodity Swap	137	6,164
Interest Rate Swap Cash flow hedge	1,157	1,392
Interest Rate Swap not identified as forward	1,023	1,084
Total derivatives	30,862	19,874

Forward contracts (in purchase or sale) provide for the physical delivery of gas in subsequent years, used in gas trading activities carried out by Exo Energy Trading and Estra Energie. These financial instruments are recognized at fair value at the balance sheet date, with the effect of the effect on the income statement in the item "Commodity risk / expense".
They do not fall within the scope of IAS 39 forward contracts used in gas marketing activities and are contracted to optimize their own procurement and sales (so-called "own use") portfolio. These contracts are recognized at the time of physical delivery of the underlying commodity.

Commodity Swaps do not foresee physical gas exchange but are contracted for the purpose of hedging the price indices for volumes sold in order to limit the price risk deriving from fixed-price gas purchases and resale at variable price (Or vice versa) at different times. The category includes derivative contracts in the scope of trading and derivatives entered into within the scope of the gas marketing activity that do not meet the formal requirements required by IAS 39 to qualify as hedges.

Interest Rate Swaps (IRSs) cover the risk of adverse change in interest rates on long-term financing or lease plans. The effective portion of changes in the fair value of derivatives is recognized directly in shareholders' equity in a specific equity reserve defined as "Cash flow hedge reserve", while the ineffective one is recognized in the income statement. Amounts that are recognized directly in equity are reflected in the total income statement. The following table shows the maturity, notional value and fair value of the IRS contracts outstanding as of 31 December 2015 and 31 December 2016:

IRS	Fair Value positive / (negative) 31/12/2016)	Notional 31/12/2016	Fair Value positive / (negative) 31/12/2015	Notional 31/12/2015
IRS Fixed Rate/Variable Rate Exp. 28/06/2019 (BPV)	- 112	2,500	- 163	3,056
IRS Fixed Rate/Variable Rate Exp. 30/06/2021 (MPS)	- 133	2,144	- 170	2,580
IRS Fixed Rate/Variable Rate Exp. 30/06/2018 (MPS)	- 16	536	- 26	645
IRS Multiphase Due date 31/12/2017 (MPS)	- 18	254	- 29	498
IRS Fixed Rate/Variable Rate Exp. 28/06/2024 (BPV)	- 834	4,749	- 961	5,256
IRS Fixed Rate/Variable Rate Exp. 28/10/2019 (Cariparma)	- 30	6,046	- 14	8,000
IRS Fixed Rate/Variable Rate Exp. 31/12/2018 (BNL)	- 15	267	- 29	400
IRS Fixed Rate/Variable Rate Exp. 28/12/2021 (Unicredit)	- 1,023	9,000	- 1,084	10,000
	- 2,179	25,496	- 2,477	30,436

13.2.6 Cash and cash equivalents

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Bank and postal deposits	299,220	281,392
Cash and cash equivalents	16	12
Total	299,235	281,404

Liquidity deposited at mature interest banks based on variable daily deposit rates. Short-term deposits vary between one day and three months in relation to the Group's financial requirements and mature interest rates at short-term rates.

13.3 ASSETS HELD FOR SALE

Assets held for sale and liabilities directly attributable to assets held for sale at 31/12/2016 and at 31/12/2015 refer to Serenia S.r.l. and Useneko S.p.z.oo., Group's equity investments in the sale / sale as described in the notes Discretionary estimates and significant accounting estimates and Net income from discontinued operations.

Activities mainly refer to material assets represented by networks and gas distribution plants. Liabilities mainly refer to medium / long-term financial liabilities represented by the residual debt of an MPS-EIB loan of Euro 1,153 thousands.

In accordance with IFRS 5, assets and liabilities have been consolidated on a single line between "assets / liabilities held for sale", eliminating intragroup relationships.
Assets have been valued in the consolidated financial statements at the estimated realizable value by recording a write-down of Euro 2,000 thousand in the Net income/(loss) income from assets held for sale in the income statement 2016 (Euro 1,057 in 2015).

13.4 SHAREHOLDERS' EQUITY

The change in the Group's equity as of 31 December 2016 compared to 31 December 2015 is mainly due to:
- Distribution of dividends to shareholders by the Parent Company (Euro 9,984 thousand);
- Acquisition of share equity 50,50% in Prometeo trough share exchange of Estra Energie S.r.l. (+Euro 14,003 thousands);
- Result of the year of the Group (+Euro 11,016 thousands);
- Variance in Retained discounting earnings (+Euro 170 thousands);
- Variance in Cash flow hedge reserve (+Euro 25 thousands).

The change in shareholders' equity attributable to minority interests as of 31 December 2016 compared to 31 December 2015 is mainly due to:
- Integral consolidation of Prometeo S.r.l. And attributing to third parties their share of net assets (+ Euro 32,205 thousand);
- Net profit for the year (+ Euro 4,035 thousand);
- Distribution of dividends to third parties (- Euro 831 thousand).

The Share capital of Estra as of 31 December 2016 is broken down as follow:

Shareholder	Number of shares	Shares nominal amount (€)	%
Consiag S.p.a.	90,200,000	90,200,000	43,893
Intesa S.p.a.	57,400,000	57,400,000	27,932
Coingas S.p.a.	57,400,000	57,400,000	27,932
ETA3 S.r.l.	500,000	500,000	0.243
Total	205,500,000	205,500,000	100,000

The items of the Parent Company's shareholders' equity are analysed in respect of the availability and possibility of distribution in the following table:

Description	Amount	Possibility of utilisation	Available share	Utilisation in the last 3 years	
				For coverage of losses	For other reasons
Capital	205,500,000				
Equity reserve					
Share premium reserve	6,510,000	A,B	-		
Capital and share premium reserve	212,010,000				
Profit reserves:					
- Legal reserve	6,879,221	B	-		
- Extraordinary reserve	103,839,938	A,B,C	103,839,937		
- Merger surplus reserve	2,724,897	A,B,C	2,724,897		
Other reserves					
Cash flow Hedge reserve	-656,26				
Severance indemnity discounting reserve	61,48				
IAS reserve	-647,82				
Retained earnings	112,201,451		106,564,834		
Total	324,211,451		106,564,834		

"A": available for capital increase
"B": available for covering losses
"C": available for distribution to shareholders

Merger surplus reserve cannot be utilized within reserve reach the border established according Art. 2430 in Civil Code.

13.5 <u>NON-CURRENT LIABILITIES</u>

13.5.1 <u>Provisions</u>

The item is broken down as follows:

Description	31/12/2015	Transfer from Nova E S.r.l.	Change in scope of consolidation	Provisions	Utilisation	Reversal	Reclassification	31/12/2016
Agency leaving indemnities provisions	232		26	29	-4	-127		156
Provision for disputes and legal expenses	6,935		31	330	-51	-1,362		5,883
Provisions for risks on technological equipment for telecommunications	926			180	-148			958
Energy efficiency certificates				175				175
Non-routine plant maintenance provision	206			135	-5			336
Provision for early retirement of employess	711				-37			674
Risk provision other investees	6,172	226		2,257	-383	-	116	8,388
Total	15,181	226	57	3,106	-627	-1,489	116	16,570

The item Agency leaving indemnities provision is allocated to cover termination indemnities for sales agents.

The item Provision for disputes and legal expenses is allocated based on the estimate at the reporting date of the risk relating to expenses and obligations arising from ongoing lawsuits involving Group companies.
Provision has been reversed for Euro 1,413 thousands consequently the examination of risks on some current litigation, valuated as possible as of 31 December 2016.

The item Provision for risks on technological equipment for telecommunications was allocated to cover the risk of losses from disposal of certain obsolete equipment prior to their full depreciation. The event is a consequence of recent change in the current market scenario about production and distribution on global level, which provoked new technologies on machineries, with lower performances compared with the new generations.

The item Energy efficiency certificates relates to risks related to the performance of the energy efficiency market, considering the certificates to be purchased for the 2016 commitment and the latest available valuation of the refund recognized by the Authority.

The item non-routine plant maintenance provision refers to the estimate of the extraordinary maintenance costs on the photovoltaic plants of Cavriglia and Tegolaia, charged by Estra S.p.A, for its own share of equity in the ATI constituted by the members of Cavriglia S.p.V. And Tegolia S.p.A. and responsible for plant maintenance. The provision for the year is recorded under "costs for services", depending on the prevailing nature of the related costs.

The provision for the early retirement of employees has been allocated to cover the charges deriving from the agreement pursuant to art. 4 of Italian law 28/2012

As of 29 May 2014, a regulatory framework agreement was signed with the Trade Unions in the Estra Group regarding the use of the instrument introduced by Law 92/2012 (Article 4 - paragraphs 1 to 7) for Encouraging the exodus of workers who mature within four years the right to retirement. Therefore, the accrued provision is related to further requests for membership, which the Group believes likely to be received.

The item Risk provisions for other investees mainly relates to the risks associated with renewable energy production facilities and, in particular, to the project for construction of a wind farm in the municipality of Andali referred to in the paragraph of the management report Arbitration procedure Andali Energia Srl / Terna - Rete Elettrica Nazionale Spa.
In this regard they are set aside:
- Euro 2,739 thousand in respect of the risk of non-recoverability of costs for works and pre-construction work for the construction of the wind farm already incurred at the end of the year, as well as additional charges related to the fulfillment of contractual obligations;
- Euro 4,410 thousand in respect of the risk of the guarantee of the GSE being issued.

13.5.1.1 Main current litigations

Procedure versus Andali Energia S.r.l./Terna – Rete Elettrica Nazionale S.p.a.

Refer to what already described in management report, in significant events of the year.

Litigation concerning the determination of the compensation due to the outgoing operator of the natural gas distribution service Prato Toscana Energie.

It is recalled that following the final award to Toscana Energie of the tender for the assignment of the natural gas distribution service in the territory of the Municipality of Prato, Centria, Toscana Energie and the Municipality of Prato signed on 31/08/2015 Minutes of delivery of the network with the plants and assets constituting the natural gas distribution system with a simultaneous payment in favor of Centria of a value of compensation of Euro 85,538 thousand over VAT.
During the year 2016, Estra and Centria companies filed a lawsuit to Prato Tribunal against the Municipality of Prato and Toscana Energia, in order to obtain the condemnation of Toscana Energia. Moreover, subordinate to the Municipality of Prato, they pretend the payment of Euro 9,613 thousand, as the lesser amount recognized to the outgoing Central Manager, in application of a contested indexation and revaluating mechanism, on the basis of the time passed between the call and the delivery of the networks.
On the basis of the appeal is, inter alia, an agreement signed by Estra and Municipality of Prato on 17/11/2011, in which the parties intended to settle each other's disputes on the value of ' Compensation, payable by the incoming operator in favor of the outgoing carrier. Relating to that, Estra's commitment to Euro 7,700 thousand (of which Euro 1,700 thousand paid on 17/11/2011).
Within the process, in front of the two counterparts Toscana Energie and Municipality of Prato, the court found the unsuitability of the proposed demand, and, moreover, a series of countervailing questions. In particular:
- The Municipality of Prato acted in a counterclaim to obtain the payment of the sum of Euro 6.000 thousand due to the forecasts of the 2011 agreement;
- Toscana Energia acted in a counterclaim to obtain a sum of money of Euro 1,742 thousand due to a supposedly different consistency of the network than represented by the outgoing carrier.

The Judge, having completed the first hearing of hearing, granted the terms of art. 183, paragraph 6 c.p.c. For the production of memories and postponed the case at the end of 2017.
The company, supported by the legal advice received, believes it can legitimately oppose the request of the Municipality of Prato to pay the remaining sum of 6,000,000 euros.
Regarding the reservations made by Toscana Energia when subscribing to the network delivery report, some of which are already accepted by the Municipality of Prato, it was considered prudent to maintain the provision for risks set aside in the previous year.

AGCM action relating to commercial contracts and practices

During the year 2016, AGCM issued a ruling against Estra Energie S.r.l. And Estra Electricity S.p.a. Contesting incorrect commercial practices and imposing a fine of Euro 500 thousand, entered into the statement of financial position as at 31/12/2016.
After the close of the financial year, the two companies made the payment and subsequently taken into account:

- They had already voluntarily activated an audit to verify customer procurement procedures and identified the corrections to be applied to comply with specific sectoral regulations;
- That the cases examined in the AGCM measure show that Estra Energie and Estra Elettricità are themselves harmed by the behavior of some of the subjects they have been using;
- For this reason the companies had already taken action against agencies and telesellers, such as the application of the penalties provided for in the contracts and their resolution;

They also filed an appeal to TAR Lazio on 18 March 2010 against the measure.

13.5.2 Provisions for employee benefits

The item provision for employee benefits, regulated by art. 2120 in Civil Code, from the point of view of the accounting policy, it is considered as a benefit provision plan. For that reason it is regulated by IAS 19, which requires the valuation of the related liability on the basis of actuarial techniques.

2016 provision variances because of defined benefits and plan activities fair value:

Defined Benefit Obligation 01.01.2016	Acquisitions	Service Cost	Interest Cost	Benefits paid	Transfers in/(out)	Expected DBO 31.12.2016	Actuarial (Gains)/ Losses	Actuarial (Gains)/Losses because of changes in financing	Defined Benefit Obligation 31.12.2016
6,627	444	125	135	- 411	- 35	6,885	- 78	317	7,124

2015 provision variances because of defined benefits and plan activities fair value:

Defined Benefit Obligation 01.01.2015	Acquisitions	Service Cost	Interest Cost	Benefits paid	Transfers in/(out)	Expected DBO 31.12.2016	Actuarial (Gains)/ Losses	Actuarial (Gains)/Losses because of changes in financing	Defined Benefit Obligation 31.12.2015
8,149	92	77	112	- 1,281	-	7,149	- 142	- 380	6,627

Main assumption adopted are following reported:

Report of economic technical bases:

	31.12.2016	31.03.2016	31.12.2015
Annual discounting rate	1.31%	1.31%	2.03%
		1.50% for 2016	1.50% for 2016
		1.80% for 2017	1.80% for 2017
Annual inflation rate	1.50%	1.70% for 2018	1.70% for 2018
		1.60% for 2019	1.60% for 2019
		2.00% from 2020 on	2.00% from 2020 on
		2.625% for 2016	2.625% for 2016
		2.850% for 2017	2.850% for 2017
Annual rate TRF increase	2.625%	2.775% for 2018	2.775% for 2018
		2.700% for 2019	2.700% for 2019
		3.000% from 2020 on	3.000% from 2020 on
Annual rate of salaries and wages	1.00%	1.00%	1.00%

The annual discount rate used to determine the present value of the obligation has been deducted, in accordance with paragraph 83 of IAS 19, from the Iboxx Corporate AA index with duration 10+ detected at the valuation date. For this purpose, the yield of a lifetime comparable to the length of the working group of the evaluation was chosen.

Report of demographic technical bases:

Death	Mortality tables RG48 published by the General Accountant of the State
Disability	INPS tables divided in age and gender
Retirement	100% to the achievement of the AGO requirements

Table of annual frequency on Turnover and employee benefits anticipation:

Frequency in advances	Frequency in Turnover
1.06%	0.50%

Below a qualitative sensitive analysis based on significant assumptions as of 31 December 2016:

Frequency in turnover		Discounting inflation		Discounting rate	
+ 1/4 %	- 1/4 %	+ 1/4 %	- 1/4 %	+ 1/4 %	- 1/4 %
7,006	7,133	7,203	6,932	6,863	7,277

The above-mentioned sensitivity analyzes were carried out on the basis of a method of extrapolating the impact on the Net Asset Plan of defined benefit plans for reasonable changes in key assumptions that occur at the end of the year. Sensitivity analyzes are based on the variation of one of the significant assumptions, while retaining all the other consistent assumptions. Sensitivity analyzes may not be representative of the actual changes in the defined benefit obligation since it is unlikely that isolated variations on individual recruitment will occur.
The following payments are the expected contributions to be made in the future for the defined benefit plan obligation:

Estimated disbursements					
	1	2	3	4	5
Totale	379	338	170	232	245

The average duration of the defined benefit plan obligation at the end of the year is 19.53 years (2015: 20.15 years).

13.5.3 Non-current financial liabilities

The item is broken down as follows:

Description	Accounting value as of 31/12/2016	Nominal amount al 31/12/2016	Accounting value as of 31/12/2015	Nominal amount al 31/12/2015
Bonds due within 12 months	-	-	-	-
Bonds maturing after 12 months	213,046	218,200	146,271	150,000
Total amount due to bonds	213,046	218,200	146,271	150,000
Shareholders' loans due within 12 months	1,435	1,435	1,435	1,435
Shareholders' loans due after 12 months	12,545	12,545	13,980	13,980
Total shareholders' loans	13,980	13,980	15,415	15,415
Loans payable within 12 months	50,343	50,343	46,842	46,842
Loans payable over 12 months	102,846	103,247	127,601	128,183
Total amounts due to banks	153,190	153,591	174,443	175,024
Leasing due within 12 months	365	365	365	365
Leasing due after 12 months	6,370	6,370	6,737	6,737
Total amount due to leasing	6,735	6,735	7,102	7,102
Total due within 12 months	52,143	52,143	48,642	48,642
Total due after 12 months	334,807	340,362	294,589	298,900
Total medium/long-term loans	386,950	392,506	343,230	347,541

The change of the item during financial year 2016 is reported below:

Description	Accounting value as of 31/12/2015	Acquisition of Coopgas S.r.l.	Transfer from Nova E S.r.l.	Issue	Repayment/Refund	Amortised cost interest	Accounting value 2016
Bonds	146,271			80,000	- 11,800	- 1,425	213,046
Loans	174,443	13,968		52,000	- 87,402	180	153,190
Leasing	7,102		2,338		- 2,704		6,735
Shareholders' loans	15,415				- 1,435		13,980
Total	343,230	13,968	2,338	132,000	- 103,341	- 1,245	386,951

With respect to the bonds, the issue relates is described in the paragraph related to Bond Issue in the Management Report and the repurchase for Euro 11,800 thousand happened in January 2016 of the 50 million Euro bond issued in 2014 quoted on the ExtraMot Pro segment of Borsa Italiana,.
The following table express the accounting value as of 31 December 2016 and 31 December 2015 for each bonds issued:

Description	31/12/2016	31/12/2015
MINIBOND BPV 2014-2019	37,271	48,347
BOND BPN 2015-2022	98,194	97,923
BOND IMI 2016-2023	77,580	
Total	213,046	146,271

With regard to leasing, the reimbursement of the leasing contracts received by Nova E S.r.l. Referred to in the paragraph Reorganization of operating companies in the renewable energy sector of the management report.

The item Shareholders' loans accepts for medium / long-term loans, subject to bank and bond debt granted by Consiag and Intesa, and in particular:
- Debit to the Consortium of Origin of Euro 15,000,000, repayable in 24 half-yearly installments from June 30, 2015, with constant capital at 3% annual rate and residual debt at 31/12/2016 of Euro 12,500 thousand;
- Debit to Coatings Origin of Euro 1,850,000 originated, repayable in 20 half-yearly installments as of June 30, 2015, with constant equity at the annual rate of 3% and residual debt at 31/12/2016 of Euro 1,480 thousand.

13.5.4 Deferred tax liabilities

The item is broken down as follows:

Description	31/12/2015	Provisions	Utilisation/reversal	31/12/2016
Not paid dividends	406	253	- 341	318
Amortised cost bonds	708	293	- 236	765
Payments in installments in gains	8,492	-	- 2,347	6,145
Extraordinary income from tangible assets	3,310	-	- 87	3,223
Extraordinary income from intangible assets	5,664	21,591	- 1,652	25,602
Derivatives on commodities fair value	5,758	-	- 5,758	-
Other	48	34	- 26	56
Total	24,386	22,171	- 10,448	36,109

13.5.5 Other non-current liabilities

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Other payables over 12 months	6	181
Payables for rights on leased assets	546	562
Long-term deferred income	2,219	2,576
Total	2,771	3,319

13.6 CURRENT LIABILITIES

13.6.1 Short term financial liabilities

The item is broken down as follows:

Description	31/12/2016	31/12/2015
Bank advances and bank account utilisation	112,700	101,329
Payables to bondholders for accrued interests	3,114	3,218
Total	115,815	104,547

13.6.2 Trade and other Payables

The item is broken down as follow:

Description	31/12/2016	31/12/2015
Payables due to suppliers	182,346	166,612
Payables due to companies under common control	12,142	6,723
Payables due to parent companies	127	825
Payables due to associated companies	-	407
Total	194,615	174,567

Payables to suppliers refer to debit items for invoices received and received mainly by gas and electricity suppliers. They are recorded net of trade discounts; Cash discounts are recognized at the time of payment. The nominal value of such debts has been adjusted for resales or rebates (billing adjustments) to the amount corresponding to the amount defined with the counterparty.

All debts are due within 12 months and in respect of persons operating in Italy, with the exception of non-significant amounts towards CEE and Extra-CEE customers for gas purchases.

For details of payables to Members, companies subject to joint control and related counterparty, refer to the table of relationships with related parties to the Related Party Transactions

For terms and conditions related to payables to related parties, please refer to the paragraph on the Report on Related Party Transactions.

13.6.3 Tax Payables

The item is broken down as follow:

Description	31/12/2016	31/12/2015
Irpex tax agents	831	852
VAT payable	596	99
IRES/IRAP payables	2,307	6,905
Excise duty and additional taxes	7,890	1,393
Other payables	722	-
Total	12,347	9,249

13.6.4 Other current liabilities

The item is broken down as follow:

Description	31/12/2016	31/12/2015
Payables due to staff for wages and salaries	3,350	3,116
Payables due to social security institutions	1,437	1,401
Amounts due to CCSE (Electricity Equalisation Fund)	5,110	5,792
Payables for the purchase of the investment of Gergas S.p.A	-	1,600
Accruals and deferrals	363	542
Amounts due for storage/transport balance	2,023	2,747
Amounts due for early retirements	866	1,382
Security deposits	17,822	13,637
Sundry payables	5,429	8,713
Total	36,400	38,929

14. DERIVATIVES INSTRUMENTS AND FAIR VALUE VALUATION

The classification of financial instruments in the light of IAS 39 is transversal to several budget items. Below is a table showing the book value of financial instruments in existence, by category of membership, compared with the corresponding fair values at December 31, 2016 and December 31, 2015.

FINANCIAL ASSETS	31/12/2016		31/12/2015	
	Accounting value	Fair value	Accounting value	Fair value
Assets measured at fair valued	28,564	28,564	17,817	17,817
Commodities foreign exchange forward contracts	27,310	27,310	16,388	16,388
Commodity Swap	1,254	1,254	1,429	1,429
Credits and loans	309,930	309,930	259,503	259,503
Loans to companies under common control	5	5	1,270	1,270
Loans to associated companies	7,497	7,497	5,506	5,506
Medium-long term guarantee deposits	1,936	1,936	969	969
Trade and other receivable	300,408	300,408	251,407	251,407
Receivables from banks	84	84	351	351
Current liquidity	299,235	299,235	281,404	281,404
Assets hel for sale	2,164	2,164	3,691	3,691
TOTAL ASSETS	639,893	639,893	562,415	562,415

FINANCIAL LIABILITIES	31/12/2016		31/12/2015	
	Accounting value	Fair value	Accounting value	Fair value
Fair value related to financial liabilities with variances on profit and loss	29,705	29,705	18,481	18,481
Commodities foreign exchange forward contracts	28,545	28,545	11,233	11,233
Commodity Swap	137	137	6,164	6,164
IRS derivatives not identified as forward	1,023	1,023	1,084	1,084
Fair value related to financial liabilities with variances on financial position	1,157	1,157	1,392	1,392
IRS Derivatives Cash flow hedge	1,157	1,157	1,392	1,392
Liabilities at amortised cost	715,212	715,212	635,981	635,981
Trade and other receivable	194,625	194,625	174,567	174,567
Long-term financial liabilities	386,951	386,951	343,230	343,23
Short-term payables due to banks	115,815	115,815	104,547	104,547
Guarantee deposits	17,822	17,822	13,637	13,637
Liabilities directly associated with assets held for sale	1,307	1,307	1,930	1,930
TOTAL LIABILITIES	747,381	747,381	657,785	657,785

Given their nature, for most of items, the book value is considered a reasonable approximation of fair value.

In all other cases, fair value determination is carried out according to methodologies classifiable in Level 2 of the hierarchy of significance levels of data used in fair value determination, as defined by IFRS 13 (input data other than quoted prices referred to at Level 1, which are observable for activity or liability either directly (as for prices) or indirectly (as for derived from prices);

The Group uses internal valuation models, generally used in financial practice, based on prices provided by market participants or quoted on active markets through primary info providers.
For determining the fair value of derivatives on interest rates or commodities, a pricing model is based on the market forward curve of the balance sheet date if the derivative of the derivative is traded on markets with official forward price quotations and liquid. In the case where the market does not offer forward prices, forecast pricing curves are based on internal valuation techniques.
With reference to the non-performance risk, i.e. the risk that one party will not honor its contractual obligations as a result of a possible default before the expiry of the derivative, both with reference to the Credit Valuation Adjustment (CVA) and the (Debt Risk Adjustment: DVA) no significant adjustments are considered, given the type

of derivative instruments present in the portfolio (represented exclusively by sales or purchases of forward commodities through short-term forward contracts and financial derivatives with Primary credit institutions) and ratings of both counterparties with which the Group's contracts have been concluded.

The Group is not compensating for financial instruments in accordance with IAS 32 and has no significant compensation arrangements. There have been no changes in the valuation methods adopted over previous years, nor transfers from one level to another to the hierarchy of assets or liabilities valued at fair value. The book value was also considered to be a reasonable approximation of fair value for the "Security Deposit" item. Available-for-sale financial assets are valued at fair value as the best estimate of the realizable price obtained from their disposal.

15. GUARANTEES

The Group has provided the following guarantees as of 31 December 2016 and 31 December 2015:

Guarantees issued on behalf of associated companies	31.12.2016	31.12.2015
Surety issued to Banca Popolare di Vicenza in favour of Montedil S.r.l.		2,400
Surety issued to MPS in favour of Tegolaia		243
Surety issued to Banca Popolare Emilia and Unicredit in favour Sinergie Italiane S.r.l.	10,478	11,905
Surety issued to Cassa di Risparmio di Firenze in favour of Vaserie Energia S.r.l.	895	895
Guarantee issued to BPER and Crédit Agricole Cariparma in favour of Blugas Infrastrutture S.r.l. for investments	5,633	5,633
Guarantee issued to Sace BT in favour of Blugas Infrastrutture on VAT credit reimbursement	2,844	4,348
Guarantee issued to Sace BT in favour of Blugas S.r.l. in liquidation on VAT credit reimbursement		1,233
Letters of patronage commitments to Ca.Ri Parma e Piacenza in favour of Blugas S.r.l. in liquidation		500
Total	19,851	27,126

Guarantees granted in the interests of others	31.12.2016	31.12.2015
Guarantees issued on behalf of local entities for work on concessions relating to the use of public land	5,507	2,188
Sureties issued to INPS	2,156	987
Surety issued to GSE for connection of the Andali wind park	4,410	4,410
Total	12,073	7,585

TOTAL GUARANTEES	31,924	34,711

For the performance of ordinary Group activities, in the interest of fully consolidated companies, bank guarantees or other guarantees, such as demanding parent companies, are also issued, for which the related debt is generally already included in the consolidated financial statements.

16. OBJECTIVE AND CRITERIA FOR MANAGING FINANCIAL RISK

The Group's main financial liabilities, other than derivatives, include loans and bank loans, bonds, trade payables, various debts and financial guarantees. The main purpose of these liabilities is to finance the Group's operating activities. The Group has financial and other receivables, trade and non-trade receivables, cash and cash equivalents that derive directly from operating activities. The Group also holds holdings for the sale and subscriptions of derivative contracts.

The Group is exposed to market risk, credit risk and liquidity risk. The Management of the Group is responsible for managing these risks. The Group has also initiated a process of defining the integrated risk management model, inspired by an internationally recognized Enterprise Risk Management (ERM) standard developed according to the internationally accepted reference model in the control field Internal, issued by the Treadway Commission Sponsorship Committee (known as the CoSO Report).
This ERM model is also intended to support the Board of Directors in order to ensure that financial risk activities are governed by sound business policies and procedures, and that financial risks are identified, valued and managed in accordance with the policies and procedures of the Group.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will change due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates is correlated in the first instance to long-term debt with variable interest rates.

The Group manages its interest rate risk through a balanced portfolio of fixed and variable interest rate loans and interest rate swaps through the subscription of interest rate swaps (IRS) where the Group agrees to exchange, at defined intervals, the difference in the amount Between the fixed rate and the variable rate calculated by referring to an agreed amount of notional capital. These swaps are designated to cover the underlying debt.
As at December 31, 2016, after taking into account the effect of the IRS, about 65% of the Group's loans are fixed-rate.

Sensitivity of interest rate risk
The following table illustrates the sensitivity to a reasonably possible variation of interest rates made in the following ways:
- An increase in and decrease of 50 basis points of the Euribor interest rates recorded during the financial year was applied to medium-term financial debt;
- In the case of a hedging relationship, the shock on interest rates was applied in conjunction with the debit position and the related derivative hedging instrument with a net impact on the extremely low profit and loss account;
- With respect to the hedging derivative contracts existing at the end of the financial year, an increase and decrease of 100 basis points of the forward curve of the interest rates used to determine the fair value of the contracts has been applied.

The following table shows the results of the sensitivity analysis illustrated by the date of December 31, 2016:

	FINANCIAL COSTS		CASH FLOW HEDGE RESERVE	
	INCREASE 50 BP	DECREASE 50 BP	INCREASE 50 BP	DECREASE 50 BP
SENSITIVITY OF FINANCING CASH FLOW				
DEBT COMPREHENSIVE OF DERIVATIVES AND LEASING AND LEASING	(211)	(133)		
FAIR VALUE VARIATION	202	(207)	216	(197)
TOTAL	(9)	(74)		

Credit risk
Credit risk is the risk that a counterparty will not fulfill its obligations as a financial instrument or a business contract, thus causing a financial loss. The Group is exposed to credit risk deriving from its operating activities (mainly for trade receivables and credit notes) and its financing activities, including deposits with banks and financial institutions.

Trade receivables
The commercial credit risk is managed in accordance with the policy set by the Group and in accordance with procedures and controls established for credit risk management.
As a result of continuing the current economic situation, the Group improved control over credit risks through the strengthening of monitoring and reporting procedures in order to find possible countermeasures in the event of identified causes. In order to control credit risk, methods for monitoring and controlling credits have been defined, along with the definition of strategies to reduce credit exposure, among which the solvency analysis of acquiring customers through a credit analysis Credit risk designed to contain insolvency risk, the reliance on customer creditors who have ceased to recoup external creditors, and the management of legal disputes relating to services rendered.

At each balance sheet date an analysis is carried out of the need for individual write-downs for major customers. In addition, for most minor credits, grouped into homogeneous categories, an assessment is made of the need for a total value reduction. The calculation is based on historical data. The maximum exposure to credit risk at the balance sheet date is the carrying amount of each class of financial asset shown in the Trade receivables note.

Derivatives and bank deposits
Credit risk related to relationships with banks and financial institutions is managed by the Group treasury in accordance with the Group's policy. The investment of the available funds is made only with approved contracts and within defined limits to minimize the concentration of risks and, consequently, mitigate the financial loss

generated by the potential bankruptcy of the contractor. The maximum exposure of the Group to credit risk for the components of the financial position at December 31, 2016 is the carrying amounts shown in the Notes to the Derivatives instruments and fair value valuation, with the exception of financial guarantees.

Liquidity Risk

The Group monitors the risk of liquidity shortages using a liquidity planning tool.
The Group's objective is to maintain a balance between continuity in the availability of funds and flexibility of use through the use of instruments such as bank overdrafts, bank loans, bonds, financial leasing and rental and purchase contracts.
The Finance function of the Group is centralized in order to optimize the collection and use of financial resources. In particular, the centralized management of financial flows in the Group, either through a cash pooling system and by a system of centralization of the Group's current accounts of pre-emption of payments and receipts, allows the allocation of available funds at Group level as needed Which from time to time occur between the individual companies. The current, prospective financial situation and the availability of adequate bank credit are constantly monitored. Through the relationships that the Group has with the major Italian and International Credit Institutions, the most suitable forms of financing are tailored to their needs and the best market conditions. At December 31, 2016, 33% of the Group's debt maturity was less than one year, calculated on the basis of the book value of the debts in the balance sheet. The Group assessed the concentration of risk with reference to debt refinancing, and concluded that it is low. Access to funding sources is sufficiently available and debts with maturity within 12 months can be extended with current lenders.
As of 31 December 2016, the Group has broad unused credit lines mainly concentrated in the Parent Company which has unused funds for Euro 60,000 thousand.

Default risk and covenant

The Group has in place bank loans and debentures, whose contractual conditions have, in line with the market for this type of instrument, provisions which legitimize counterparties, whether banks or bondholders, to ask the debtor, Certain events, immediate repayment of the sums provided.
These contractual terms normally provide for non-controlling exchange-rate bondholders / credit institutions and financial parameters such as PFN/EBITDA and PFN/Net equity ratios.

As of 31 December 2016, there is no situation of non-compliance with the covenants by Group companies.

17. OTHER INFORMATIONS

17.1 Related parties disclosure

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year as of 31 December 2016 and 2015. Individuated related parties are shareholders, subsidiaries companies, companies under common control and associated companies, directly or indirectly by Estra S.p.A. :

Cost and Income

Related party / Accounting Item – Fiscal year 2016	Revenues from sales and services	Other income	Services	Leased assets of third parties	Other operating expenses	Financial income	Financial expense
Shareholder	2,685	1,031	207	2,025	3	-	457
Consiag S.P.A	1,186	395	3	1,026			403
Intesa S.p.A.	1,432	625	157	634	3		6
Coingas S.p.A.	66	11	47	365			49
Companies under common control	3,709	1,035	19,266				-
Edma Reti Gas S.r.l.	1,278	705	15,621				-
Edma S.r.l.	2,421	327	3,645				
Nuova Sirio S.r.l.	5						
Idrogenera S.r.l.	5	3					
Associated companies		267				182	
Blugas Infrastrutture S.r.l.		22				182	
Piceno Gas Vendita S.r.l.		11					
Cavriglia SPV S.p.A.		140					
Tegolaia SPV S.p.A.		95					
Other subsidiaries	7	4					
Casole energia S.r.l.	7	4					
Total	6,401	2,337	19,473	2,025	3	182	457

Related party / Accounting Item – Fiscal year 2015	Revenues from sales and services	Other income	Expenses for raw materials	Services	Leased assets of third parties	Other operating expenses	Financial income	Financial expense	Financial expense
Shareholder	2,723	1,426	-	83	2	-	1	503	503
Consiag S.P.A	1,033	209			1,026			449	449
Intesa S.p.A.	1,602	1,025		36	603		1	-	-
Coingas S.p.A.	87	192		47	371			54	54
Companies under common control	81,969	1,976	711	909	-	-	487	-	-
Edma Reti Gas S.r.l.		209		731					
Edma S.r.l.	3,763	1,259							
Prometeo	78,201	505	711	178			487		-
Idrogenera S.r.l.	5	3					-		-
Associated companies	7	263	-	-	-	-	156	-	-
Blugas Infrastrutture S.r.l.		25					155		
Montedil S.r.l.							1		
Casole Energie	7	4							
Cavriglia SPV S.p.A.		139							
Tegolaia SPV S.p.A.		95							
Total	84,698	3,665	711	993	2	-	645	503	503

Assets and Liabilities

Related party / Accounting Item – Fiscal year 2016	Trade and other receivable	Trade payables
Shareholder	3,429	127
Consiag S.P.A	1,416	
Intesa S.p.A.	1,958	66
Coingas S.p.A.	55	61
Companies under common control	6,058	12,142
Edma Reti Gas S.r.l.	4,213	5,178
Edma S.r.l.	1,816	6,964
Nuova Sirio S.r.l.	5	
Idrogenera S.r.l.	24	
Associated companies	1,117	-
Roma Oil Company S.r.l.	87	
Monte Urano S.r.l.	3	
Blugas Infrastrutture S.r.l.	611	
A.E.S. Fano Distribuzione Gas S.r.l.	34	
Piceno Gas Vendita S.r.l.	11	
Cavriglia SPV S.p.A.	284	
Tegolaia SPV S.p.A.	87	
Other subsidiaries	11	
Casole energia S.r.l.	11	
Total	10,615	12,269

Related party / Accounting Item – Fiscal year 2015	Trade and other receivable	Trade payables
Shareholder	1,661	826
Consiag S.P.A	597	374
Intesa S.p.A.	910	105
Coingas S.p.A.	154	347
Companies under common control	9,500	6,722
Edma Reti Gas S.r.l.	1,718	319
Edma S.r.l.	4,422	5,497
Nova E S.r.l.	88	
Idrogenera S.r.l.	30	
Prometeo S.p.A.	3,152	907
Marche Energia S.r.l.	30	
Vaserie Energie S.r.l.	10	
Venticello S.r.l.	37	
Sinergia Green Tech S.p.A.	14	
Associated companies	1,069	
Montedil S.r.l.	1	
Roma Oil Company S.r.l.	95	
A.E.S. Fano Distribuzione Gas S.r.l.	53	
Blugas Infrastrutture S.r.l.	406	
Cavriglia SPV S.p.A.	370	
Tegolaia SPV S.p.A.	144	
Other subsidiaries	9	
Casole energia S.r.l.	9	
Total	12,239	7,548

17.2 Compensation for Directors, Board of statutory auditors and Independent auditors

The following table shows compensation for Directors, Board of statutory auditors and independent auditors:

Beneficiaries	Of the parent company	Of the other companies of the group	Total
Directors	270	291	561
Board of Statutory Auditors	132	293	425
Independent Auditors	63	208	271

Prato, as of 20 April 2017

For Board of Directors
The president

Francesco Macrì

FTA INTERNATIONAL ACCOUNTING PRINCIPLES IAS/IFRS

1. Introduction

Companies with bonds admitted to trading on a regulated market in the EU Member States must prepare their (and consolidated) financial statements in accordance with the International Accounting Standards ("IFRSs") adopted by the European Union from the financial statements of the year in which the listing of bonds took place.

Following the issue of a bond on Dublin's regulated market in November 2016, Estra decided to adopt IFRS accounting standards for consolidated financial statements from the financial year ended December 31, 2016, by designating the date of transition to the new accounting standards on January 1, 2015. This document describes the effects of the transition to IAS/IFRS accounting standards as of 31 December 2015, last approved.

This document provide the information required by IFRS 1 (paragraph 24 et seq.) and, in particular, the description of the impacts on the Group's balance sheet and profit and loss account provoked by transition to EU IFRS. To this end, they have been prepared:

- Accounting options elected by the Estra Group in the first-time adoption of IFRS accounting standards;

- Reconciliation of consolidated statement of financial position reported in accordance with previous GAAP to consolidated financial statements reported in accordance with IFRS as of 1 January 2015 and as of 31 December 2015;

- Reconciliation of consolidated income statement reported in accordance with previous GAAP to consolidated income statement reported in accordance with IFRS as of 31 December 2015;

- Reconciliation of equity reported in accordance with previous GAAP to equity in accordance with IFRS as of 1 January 2015 and as of 31 December 2015;

- Reconciliation of net income reported in accordance with previous GAAP to net income in accordance with IFRS as of 31 December 2015 prepared in accordance with ITA GAAP and IFRS;

- Notes to the preliminary consolidated IFRS financial statements relating to adjustments and reclassifications including in the aforementioned reconciliations.

The financial statement at the date of transition to the new standards has been prepared according sequent criteria:

- only those assets and liabilities that can be reported under the new standards have been recognized (including those not requested by OIC) ;
- assets and liabilities have not been recognized if not provided by IAS/IFRS;
- items that were shown in the financial statements in accordance with accounting policies other than IFRS have been restated;
- all assets and liabilities have been valued as if the IFRS have always been applied with the exception provided for by IFRS 1 as reported in this document;
- the effect of adjustments resulting from the application of IFRS to the opening balances of assets and liabilities has been recognized in the shareholders' equity net of the relevant deferred tax effect which is accounted for within deferred tax assets or liabilities.

The effects of the transition to IFRS due to the application of different accounting principles with respect to those previously applied were reflected in the opening shareholders' equity at 1 January 2015, as required by IFRS 1, in dedicate reserve (i.e. IAS Reserve), excluding the fiscal effect provoked by deferred tax assets and liabilities.

2. Financial statement presentation

The "current/non-current" classification has been adopted for the statement of financial position.

An asset is classified as current when:

- the Estra Group expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

- the Estra Group holds the asset primarily for the purpose of trading;
- the Estra Group expects to realise the asset within twelve months after the reporting period; or
- the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Estra Group classifies all other assets as non-current.

A liability is classified as current when:

- the Estra Group expects to settle the liability in its normal operating cycle;
- the Estra Group holds the liability primarily for the purpose of trading;
- the liability is due to be settled within twelve months after the reporting period; or
- the Estra Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Estra Group classifies all other liabilities as non-current.

In relation to the consolidated income statement, the Estra Group discloses the expenses by nature.

The Estra Group decided to present two separate statements consisting of the consolidated income statement and the consolidated statement of comprehensive income.

3. Optional exceptions to complete retrospective adoption of UE IFRS

For the adoption of international accounting standards, the Estra Group has applied IFRS 1 - First-time Adoption of International Financial Reporting Standards, choosing the following optional exemptions:

- *business combinations:* the Estra Group has not applied IFRS 3 retrospectively to business combinations that occurred prior to its date of transition to IFRS;

- *reserve for net exchange differences deriving from the translation of the financial statements of foreign operations:* the Estra Group has not used the exemption and has maintained the cumulative translation differences that existed at the date of transition to IFRS;

- *Service concession arrangements:* the Estra Group has applied transitional provisions provided in IFRIC 12. The Estra Group did not apply this interpretation retrospectively at the start of the earliest period presented and the Estra Group:
  (a) recognises financial assets and intangible assets that existed at the start of the earliest period presented;
  (b) uses the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and
  (c) tests financial and intangible assets recognised at that date for impairment.

4. Mandatory exceptions to complete retrospective adoption of UE IFRS

IFRS 1 establishes certain mandatory exceptions to the retrospective application of international accounting standards in the process of transition to IFRS. Below are highlighted the mandatory exceptions applied by the Estra Group as part of this transition:

- *estimates:* in accordance with IFRS at the date of transition to IFRS estimates shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. The estimates previously formulated in accordance with ITA GAAP have been maintained;

- *Hedging transactions*: in accordance with IFRS 1, if a transaction has designated as a hedge before the date of transition to IFRS but the hedge does not meet the conditions for hedge accounting in IAS 39, the entity shall discontinue hedge accounting. Transactions entered into before the date of transition to IFRS shall not be retrospectively designated as hedges;

- *Rate regulated activities:* Estra Group adopted the book value applied in previous accounting principles as substitute of cost value for assets, machinaries, plants and equipments.

Other mandatory exemptions prescribed from IFRS 1 were not applied, as they relate to situations not applicable to the Estra Group.

5. Accounting treatments chosen from the accounting options provided by IFRS

The Estra Group choose the following accounting treatments:

- *Inventories*: in accordance with IAS 2, the cost of inventories should be determined by using the FIFO method or the weighted average cost method. The Estra Group has chosen to use the weighted average cost method, already adopted in the preparation of financial statements in accordance with Italian GAAP;

- *Valuation of tangible assets and intangible assets:* subsequent to the initial recording at cost, IAS 16 and IAS 38 provide that these assets may be valued at cost (and depreciated/amortized) or at fair value. The Estra Group has chosen to adopt the cost method.

6. Significant accounting judgements, estimates and assumptions

The most significant accounting principles and valuations adopted in the preparation of the preliminary IFRS financial statements are described below.

Business Combinations and Goodwill
Business combinations are accounted for using the purchase method as determined by IFRS 3. The acquisition cost is determined as the sum of the aggregate of the consideration transferred, which is measured at acquisition-date fair value, and the amount of the non-controlling interest in the acquiree. For each business combination, the Estra Group determines whether measure the non-controlling interest in the acquiree at fair value or in relation to the proportionate share of the entity's net assets of the acquired company. Acquisition costs are recognized in profit of loss in the period and classified as administrative expenses.
In a business combination achieved in stages, the Estra Group measures its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in income statement.
Goodwill is recognized as of the acquisition date measured as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed by the Estra Group.
If fair value of the net identifiable assets acquired and the liabilities assumed exceeds the consideration transferred, the Estra Group reassess the correctness of the identification of all identifiable assets acquired and assumed liabilities and reviews the procedures used to determine the amounts recognized at acquisition date. If the reassessment still determines that the fair value of identifiable assets acquired and the liabilities assumed exceeds the consideration transferred, the difference is recognized in income statement.
Subsequently to the initial recognition, goodwill acquired in a business combination shall be tested for impairment. The goodwill should, from the acquisition date, be allocated to each of the Estra Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.
When the Estra Group disposes of an operation within a cash-generating unit (group of units) to which goodwill has been allocated, the goodwill associated with that operation should be included in the carrying amount of the operation when determining the gain or loss on disposal and measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit (group of units) retained.

The accounting principle has been applied in the financial statement as of 31 December 2015 for the acquisition of Vea S.r.l. and Gastronto S.r.l.. In accordance with IFRS 3, the Estra Group determined the *purchase price allocation ("*PPA*")*; the consideration transferred paid in excess of the shareholders' equity of subsidiaries amounts to Euro 5,778 thousands for Vea S.r.l. and Euro 5,944 thousands for Gastronto S.r.l.; these amounts were allocated to goodwill in the financial statements prepared in accordance with ITA GAAP, whereas in the preliminary IFRS financial statements they were allocated as follows:

- As per Vea S.r.l., to customer list for Euro 8,117 thousands, gross of deferred taxes for Euro 2,339 thousands. The amount allocated to the customer list is amortized over 15 years starting from 2015.
- As per Gastronto S.r.l., to customer list for Euro 10,446 thousands, gross of deferred taxes for Euro 3,010 thousands. The amount allocated to the customer list has not been amortized in the year 2015 since the

acquisition of control occurred at year-end. In accordance with IFRS 3, the Estra Group proceeded to recognize the total amount allocated to the customer lists, attributing the minority interest share for Euro 1,491 thousands.

Investments in associates and joint ventures

The Estra Group uses the equity method to account for its investments in associates or joint ventures in its consolidated financial statements.

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment and because it is not separately recognised, it is not tested for impairment separately.

Consolidated income statement shows the Estra Group's share of the operating income of the associate or joint venture. Any change in other comprehensive income statement relating to these subsidiaries is presented as part of the comprehensive income of the Estra Group. In addition, for any variation in an associate or a joint venture charged directly to equity, the Estra Group recognizes its share, where applicable, in equity. Unrealized gains and losses arising from transactions between the Estra Group and associated companies or joint ventures are eliminated in proportion to the percentage of participation in associates or joint ventures.

Aggregated share of the operating result of the Group's associated companies and joint ventures is recognized in the consolidated income statement after operating profit and it represents the result after taxes and amounts due to other shareholders of the associate or joint venture.

The financial statements of associated companies and the joint venture is prepared to the same closing date of the Group financial statements. Where necessary, the financial statements are adjusted to bring it into line with Group accounting principles.

The Group's share of results of associated companies, accounted for using the equity method, is presented in relation to the correlation between the activities of the subsidiary and the activities of the entity that prepares the financial statements.

This meant that the Group’s share of the result of the joint venture EDMA S.r.l. was included in the operating result, while its share of profit of other subsidiaries has been excluded.

Non-current Assets Held for Sale, disposal group and Discontinued Operations - IFRS 5

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of its carrying amount and fair value less costs to sell. In particular, disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated 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. In accordance with IFRS, the figures for non-current assets held for sale, disposal groups held for sale and discontinued operations are presented in two specific items of the statement of financial position: assets held for sale and liabilities directly associated with assets held for sale.

Non-current assets held for sale are not amortized and they are valued at the lower of carrying amount and the fair value less costs to sell; the excess between the carrying amount and fair value less costs to sell is recognized in the income statement as an impairment loss.

Concerning the operations that have been discontinued by the end of the reporting period, the results are to be shown separately in the statement of comprehensive income.

On the date of conversion (1st of January 2015) and as of 31st December 2015, the Estra Group designated the Polish company Useneko as non-current assets held for sale. The company operates in the gas distribution activity in Poland and its direct parent “Serenia S.r.l. in liquidazione” (winding up) is totally owned by the parent company (Estra S.p.A.). With the resolution of 29 March 2012 the Board of Directors of the parent company approved the disposal of both companies.

Preparatory activities for disposal of the entity, such as criticalities emerged in restoration work of the network and the regularization of certain easements, caused the lengthening of the completion of the sale beyond the period originally planned. The Estra Group is still committed to the resolution of these problems in order to implement the disinvestment program.

In financial statements as of 31 December 2014 and 31 December 2015 prepared in accordance with Italian GAAP, the subsidiaries Serenia and Useneko were deconsolidated and the loans which are included in financial activities at fair value, were adjusted and recognized in income statement.

In financial statements as of 31 December 2014 and 31 December 2015 prepared in accordance with IFRS the subsidiaries are consolidated in accordance with IFRS 5: assets and liabilities of the subsidiaries Serenia and Useneko are consolidated on a single line on the “assets/liabilities held for sale” and the effect of the valuation at fair value is recorded on a single line profit/loss from discontinued operations.

Property, plant and equipment

Property, plant and equipment is recognised at cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use, if the investment had not been made.

If there are current obligations to dismantle and remove the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time that the structures are abandoned, recognised as a contra-entry to a specific provision.

Property, plant and equipment may not be revalued, even through the application of specific laws.

The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses are posted to the income statement in the period when they incurred.

Starting when the asset is available and ready for use, property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset’s useful life, if this is significant and can be reasonably determined.

Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale.

Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it are recognised prospectively.

Freely transferable assets are depreciated during the period of the concession or of the useful life of the asset, if lower.

Leases

Assets acquired under finance leases are accounted for in accordance with IAS 17; the Estra Group recognises finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability.

A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

With reference to the leased assets, the indications of IFRIC 4 “*Determining whether an Arrangement contains a Lease*” shall be taken into account in order to determine whether an arrangement is, or contains, a lease based on the substance of the arrangement. IFRIC 4 involves applying the same accounting treatment prescribed by IAS 17 "Leases".

Intangible assets

Intangible assets are defined as an identifiable non-monetary asset without physical substance, controlled by the Estra Group and capable of producing future economic benefits, as well as goodwill when purchased for consideration.

The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. An asset is identifiable if it either:

(a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws.
Internally generated intangible asset which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred.
Intangible assets with a finite useful life are recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses thereon.
The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates and shall be recognised in income statement. Amortisation is recognised in income statement.
The Estra Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired, if any such indication exists the Estra Group tests an intangible asset for impairment in the manner described in the following paragraph "Impairment of assets"; an impairment loss recognised in prior periods for an asset shall be reversed if the indication which caused the impairment loss no longer exsist. Intangible asset with an indefinite useful are required to test for impairment at least annually.
The gain or loss arising from derecognition of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised in income statement when the asset is derecognized.

Research and development

No intangible asset arising from research is recognised. Expenditure on research is recognised as an expense when it is incurred. An intangible asset arising from development is recognised if, and only if, the Estra Group can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
(b) its intention to complete the intangible asset and use or sell it.
(c) its ability to use or sell the intangible asset.
(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Amortisation begins when the asset is available for use. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Estra Group.

Service Concession Arrangements

According to IFRIC 12 infrastructure used in a public-to-private service concession arrangement shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services or the operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. Based on the Estra Group service concession agreements the infrastructure used is recognised under the "intangible asset model". The implementation of IFRIC 12 made it necessary to apply IAS 11 to the same infrastructures, since if the concessionaire constructs or improves an infrastructure that it does not control, the relative construction and improvement services carried out on behalf of the grantor are classified as construction contracts. Therefore, considering that most works are contracted out externally and that on construction activities carried out internally the job margin cannot be identified individually from the benefits included in the remuneration for the service, these infrastructures are reported on the basis of costs actually incurred, net of any contributions paid by the entities and/or private customers.
Under ITA GAAP investments in infrastructure related to concessions were accounted for within tangible fixed assets, whereas the infrastructures in scope are recorded as Intangible Assets in the preliminary IFRS financial statements according to IFRIC 12.

Impairment of property, plant and equipment and intangible assets

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested for impairment.
Goodwill acquired in a business combination, intangible asset not yet available for use and intangible asset with an indefinite useful life are tested for impairment annually or more frequently when there is any indication that they may be impaired.
The Estra Group tests the asset by comparing its carrying amount with its recoverable amount.
The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Calculating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows. The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.
If, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss, which is recognised immediately in income statement.
The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in income statement.
If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs.
The CGUs have been identified consistently with the business and organizational structure, as groups of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

The Estra Group tested for impairment the goodwill recognized in the consolidated financial statements prepared in accordance with ITA GAAP which derive from the following past business combinations, recognized at the date of transition to IFRS and for which the Estra Group elect not to apply IFRS 3 retrospectively:

- Goodwill recognized from the first consolidation of Gergas S.p.A – CGU "Gas distribution Atem Grosseto" (Euro 1,369 thousands);
- Goodwill referred to: gas business units transferred from Consiag S.p.A., Intesacom S.p.A. and Coingas S.p.A.; purchase against payment of business units from Amag S.r.l., Valdarnotiberinagas S.r.l., Baiengas Commerciale S.r.l. and Offidagas S.r.l. and Esegas; merger deficit from the merger of Energeia S.r.l. into Estra Energie S.r.l. - CGU "Sale of gas" (Euro 10,688 thousands);
- Goodwill, implicit in the equity value of the investment in EDMA S.r.l, deriving from consolidation of Prometeo S.p.A. – CGU "Sale of gas" (Euro 22,073 thousands).

Impairment tests performed as of 1st January 2015 and as of 31st December 2015 showed no impairment of goodwill recorded in the consolidated financial statements. As a consequence at the date of transition to IFRS the Estra Group proceeded to the write off the amortization recognized in the financial statements prepared in accordance with ITA GAAP.

Energy Efficiency Certificates
The Estra Group holds Energy Efficiency Certificates for *own-use* while does not hold certificates for trading.
The certificates purchased in order to meet the annual obligation are recognized as current activities at fair value.
The Estra Group posts a provision for the residual certificates to purchase in order to meet the annual obligation; these certificates are measured based on the difference between the contribution from the Authority (AEEGSI) and the market value. The cost of the provision is recognized under the "Other operating costs" of the income statement.
The IFRS accounting treatment is the so-called "Net liabilities approach": the purchase costs are recognised under the "Other operating costs" of the income statement at the time of purchase and the contribution from the Authority (AEEGSI) while revenues are recognized at the time of the cancellation of the certificates under the "Other revenue and income". The certificates held at year-end are recognized in line with the contribution from the Authority (AEEGSI) for the year as "Other revenue and income" counterbalance "other receivable".
When the needs exceeds the certificates held at year end ("deficit"), the Estra Group recognises a provision for the burden necessary to meet the residual obligation. The provision is estimated based on any purchase contracts or based on market value.

Financial Instruments
Financial instruments include equity investments held for trading or held for sale (excluded subsidiaries, associates and joint ventures), non-current receivables and loans, trade receivable and other receivable, other

current financial assets as cash and cash equivalents. Financial instruments include financial liabilities, trade payables, other payable and other financial liabilities as well as derivatives.
Financial assets and financial liabilities are recognised in the Estra Group's statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.
The Estra Group derecognises a financial asset when, and only when:

- the contractual rights to the cash flows from the financial asset expire; or
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement
- transfers the contractual rights to receive the cash flows of the financial asset and (i) transfers substantially all the risks and rewards of ownership of the financial asset, or (ii) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control

When the Estra Group neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of its continuing involvement. When the Estra Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the entity's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the entity could be required to repay.
The Estra Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires.
An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in income statement.
Financial activities and financial liabilities are recognised initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
For the purpose of measuring a financial asset after initial recognition, IAS 39 classifies financial assets into the following categories:

- Non-derivative financial assets and liabilities at fair value through profit or loss:
  - financial asset or financial liability classified as held for trading (HFT)
  - financial liabilities at fair value through profit or loss.

- Other non-derivative financial assets and liabilities:
  - loans and receivables
  - held-to-maturity investments (HTM)
  - financial liabilities measured at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in income statement.

- *Available-for-sale financial assets (AFS)*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. These assets are measured at fair value and impairment losses cannot be reversed through profit or loss, but shall be recognised in other comprehensive income. When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised.

- *Derivatives*

Derivatives, embedded derivatives included, are meauserd at their fair values. Gain or loss arising from a change in the fair value of a derivative that is not part of a hedging relationship shall be recognised in income statement.
A derivative may be designated as a hedging instrument when there is formal designation and documentation of the hedging relationship and the hedge is assessed on an ongoing basis and determined to have been highly effective. Fair value hedge are measured at fair value and the gain or loss from remeasuring the hedging instrument

shall be recognised in income statement and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in income statement. Cash flow hedge portion of the gain or loss that is determined to be an effective hedge shall be recognised in other comprehensive income, while the ineffective portion of the gain or loss on the hedging instrument shall be recognised in income statement.

Outstanding financial derivatives were measured at fair value against the forward market curve as of year-end date of the annual financial statements, when the underlying assets were traded on markets that provided a forward pricing structure.

At the date of transition (1 January 2015) and as of 31 December 2015, the Estra Group holds the following financial instruments:

- *Other non derivative financial activities and liabilities,* related to non-current bank loans and bonds measured at the amortised cost.

- *Derivatives* of the following types:
  - Hedging instruments mainly related to *Interest Rate Swap* (IRS)
  - *Commodity Swap* which are not designated as hedging instruments according to IAS 39

Commodities forward contracts
The Estra Group has in place forward contracts for the purchase or sale of gas on a future date. The valuation of the instrument depends on the classification in the following categories:
- Forward contracts related to the trading activity of the subsidiary Exo Energy Trading; these contracts are accounted for under IAS 39 as contracts entered into for trading, speculative and hedging purposes. These contracts are recognized at fair value as of year-end in the income statement (Income / charges from commodity risk management);
- Forward contracts related to the sale of gas activity of the subsidiary Estra Energie; IAS 39 do not apply to these contracts as they are concluded in order to the portfolio optimisation (so-called “own use”). Such financial instruments are recognised at the time of physical delivery of the underlying commodity.

Outstanding financial derivatives were measured at fair value against the forward market curve as of year-end date of the annual financial statements, when the underlying assets were traded on markets that provided a forward pricing structure.

Employee benefit
Post-employment benefits (TFR) are defined applying actuarial method .Actuarial gains and losses are recognised in other comprehensive income into the “item the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.
Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in “Finance expense (income)”.
In defined-contribution plans, the Company’s obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.
The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

Inventories
Inventories are stated at the lower of cost and net realisable value. The cost of inventories is the weighted average cost. When required inventories are usually written down or adjusted through the recording of a special provision, to take into account factors of slow-moving or obsolete goods.
The stored gas inventories held for trading activities are carried at fair value, which is measured in accordance with the official prices on the market at the valuation date.

7. Consolidated statement of financial position as of **1** January 2015

Following reconciliation of consolidated statement of financial position ander ITA GAAP to IFRS as of 1 January 2015:

Balance Sheet (€/000)	01/12/2015 ITA-GAAP	IFRS Adjustments	01/12/2015 IFRS Restated	Notes
NON-CURRENT ASSETS				
Property, plant and equipment	320,964	(273,437)	47,527	1
Goodwill	12,056		12,056	2
Intangible assets	23,015	240,535	263,550	3
Investments in associates and joint venture	36,120	(1,074)	35,046	4
Other non-current financial assets	8,541	(1,657)	6,884	5
Other non-current assets	1,750		1,750	
Deferred tax assets	15,837	3,846	19,683	6
	418,284	(31,788)	386,497	
CURRENT ASSETS				
Inventories	29,692	(859)	28,833	7
Trade and other receivable	218,785	(261)	218,523	8
Tax receivables	27,133		27,133	
Other current assets	32,489	(681)	31,808	9
Current financial assets	891	5,870	7	10
Cash and cash equivalents	170,351		170,351	
	479,340	4,068	483,408	
Assets held for sale		4,368	4,368	11
TOTAL ASSETS	897,625	(23,351)	874,273	
SHAREHOLDERS' EQUITY				
Issued capital	205,500		205,500	
Share premium	6,510		6,510	
FTA Reserve		(3,352)	- 3,35	
Cash flow hedge reserve		(2,257)	- 2,26	
Actuarial reserve IAS 19				
Exchange reserve		(47)	- 47,00	
Consolidation reserve	29		29	
Other reserves	12,308	47	12,355	
Group profit (loss) for the year	8,787		8,787	
Total Group Shareholders' equity	233,134	(5,609)	227,525	
Capital and reserves attributable to minority interests	10,631	(104)	10,527	
Profit for the year attributable to minority interests	1,457		1,457	
Minority interests	12,088	(104)	11,984	
TOTAL SHAREHOLDERS' EQUITY	245,222	(5,713)	239,509	12
NON-CURRENT LIABILITIES				
Provisions	8,515	(63)	8,452	13
Provisions for employee benefits	7,301	847	8,149	14
Non-current portion of long term financial liabilities	199,358	(2,633)	196,724	15
Deffered tax liabilities	4,538	1,927	6,465	16
Other non-current liabilities	32,979	(28,868)	4,111	17
	252,691	(28,790)	223,901	
CURRENT LIABILITIES				
Current portion of long term financial liabilities	34,082		34,082	
Short-term financial liabilities	148,687	165	148,852	15
Trade payables	180,329		180,329	
Tax payables	7,394		7,394	
Other current liabilities	29,219		29,219	
Other financial liabilities		8,479	8,479	18
	399,711	8,644	408,356	
Liabilities directly associated with assets held for sal		2,507	2,507	19
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	897,625	(23,351)	874,273	

8. Consolidated statement of financial position as of 31 January 2015

Following reconciliation of consolidated statement of financial position ander ITA GAAP to IFRS as of 31 December 2015:

Balance Sheet (€/000)	31/12/2015 ITA-GAAP	IFRS Adjustments	31/12/2015 IFRS Restated	Notes
NON-CURRENT ASSETS				
Property, plant and equipment	287,559	(240,964)	46,595	1
Goodwill	21,695	(10)	12,056	2
Intangible assets	24,948	225,926	250,874	3
Investments in associated and joint venture	46,413	(525,000)	45,889	4
Other non-current financial assets	8,327	(1,552)	6,776	5
Other non-current assets	969,000		969,000	
Deferred tax assets	17,675	7,205	24,881	6
	407,586	(19,548)	388,039	
CURRENT ASSETS				
Inventories	33,557	(611)	32,945	7
Trade and other receivable	251,668	(261)	251,407	8
Tax receivables	8,558		8,558	
Other current assets	29,274	(1)	27,925	9
Current financial assets	351	17,817	18	10
Cash and cash equivalents	281,404		281,404	
	604,812	15,596	620,407	
Assets held for sale		3,691	3,691	11
TOTAL ASSETS	1.012.398	(261,000)	1.012.138	
SHAREHOLDERS' EQUITY				
Issued capital	205,500		205,500	
Share premium	6,510		6,510	
FTA Reserve		(3,352)	- 3,35	
Cash flow hedge reserve		(1,842)	- 1,84	
Actuarial reserve IAS 19		380,00	380,00	
Exchange reserve		(114)	- 114,00	
Consolidation reserve	29	599,00	628	
Other reserves	16,605	114	16,720	
Group profit (loss) for the year	32,531	1,54	34,069	
Total Group shareholders' equity	261,175	(2,676)	258,499	
Capital and reserves attributable to minority interests	8,807	1	10,228	
Profit for the year attributable to minority interests	1,431	141,00	1,572	
Minority interests	10,238	2	11,801	
TOTAL SHAREHOLDERS' EQUITY	271,413	(1,114)	270,299	12
NON-CURRENT LIABILITIES				
Provisions	16,436	(1)	15,181	13
Provisions for employee benefits	6,256	371	6,627	14
Non-current portion of long term financial liabilities	298,926	(4,338)	294,589	15
Deferred tax liabilities	12,895	11,492	24,386	16
Other non-current liabilities	30,843	(27,525)	3,319	17
	365,357	(21,255)	344,101	
CURRENT LIABILITIES				
Current portion of long term financial liabilities	48,642		48,642	
Short-term financial liabilities	104,242	305	104,547	15
Trade and other payables	174,567		174,567	
Tax payables	9,249		9,249	
Other current liabilities	38,929		38,929	
Other financial liabilities		19,874	19,874	18
	375,628	20,179	395,807	
Liabilities directly associated with assets held for sale		1,930	1,930	19
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1.012.398	(261,000)	1.012.138	

9. Consolidated income statement and consolidated income statement of comprehensive income as of 31 December 2015

Following reconciliation of consolidated income statement and consolidated income statement of comprehensive income under ITA GAAP to IFRS as of 31 December 2015:

Income Statement (€/000)	ITA-GAAP	IFRS Adjustments	IFRS Restated	Notes
Revenues				
Core business revenue	845.647	(776)	844.871	20
Other revenue and income	78.284	(1.329)	76.955	21
	923.930	(2.105)	921.826	
Operating costs				
Purchases of goods	672.514	(248)	672.266	22
Services	65.444	635	66.079	23
Leased assets of third parties	15.769		15.769	
Labour and related costs	31.296	(67)	31.229	24
Amortisation, depreciation and impairment	46.992	(5.047)	41.944	25
Other operating expenses	26.347		26.347	
	858.362	(4.727)	853.634	
Income / (charges) from commodity risk management		35	35	26
Income / (charges) from equity investments of a non-financial nature		1.073	1.073	27
OPERATING INCOME	65.569	3.730	69.299	
Financial income	4.154		4.154	
Financial expense	(12.207)	(730)	(12.937)	28
Gains and losses on foreign exchange	9		9	
Income / (charges) from equity investments	465	412	877	29
FINANCIAL INCOME AND CHARGES	(7.579)	(318)	(7.897)	
		0		
INCOME BEFORE TAXES	57.989	3.413	61.402	
Income taxes	24.027	677	24.704	30
NET INCOME FROM CONTINUING OPERATIONS	33.962	2.736	36.698	
Discontinued operations		(1.057)	(1.057)	31
NET INCOME	33.962	1.679	35.641	
Attributable to:				
Minority interests	1.431	141	1.572	
NET INCOME FOR THE GROUP	32.531	1.538	34.069	

Consolidated statement of comprehensive income (€/000)	ITA-GAAP	IFRS Adjustments	IFRS Restated	Notes
NET INCOME	33.962	1.679	35.641	
Attributable to:		0		
Minority interests	1.431	141	1.572	
NET INCOME FOR THE GROUP	32.531	1.538	34.069	
A. Change in hedging reserve		298	298	31
- Gains (losses) on hedge of a net investment		351	351	
- Income tax effect		(53)	(53)	
B. Actuarial gains (losses)		397	397	32
- Actuarial Gains (losses)		522	522	
- Income tax effect		(125)	(125)	
C. Equity method valuation effect		126	126	33
- Gains (losses)		232	232	
- Income tax effect		(105)	(105)	
Total other components of comprehensive income, net of tax effect (A+B+C)		821	821	
Attributable to:				
Minority interests		19	19	
Group		802	802	
TOTAL COMPREHENSIVE INCOME				
Attributable to:				
Minority interests	1.431	160	1.591	
Net Income for the Group	32.531	2.341	34.871	

10. Explanatory notes to the IFRS adjustments and reclassifications

Follows the description about adjustments and reclassifications relating to financial statements as of 1 January 2015 and 31 December 2015, including consolidated income statement for the fiscal year 2015.

ITA GAAP financial statements reclassified according to IFRS financial statements

In order to align the financial statements presentation to IFRS presentation, the following reclassifications were made:

Consolidated statement of financial position

- Reclassification of accruals and deferrals (accrued income and prepaid expenses) in other current assets (Euro 3,260 thousands as of 1 January 2015 and Euro 3,554 thousands as of 31 December 2015);
- Reclassification of accruals and deferrals (accrued expenses and prepaid income) in other current liabilities (Euro 542 thousands as of 31 December 2015) and in other non-current liabilities (Euro 32,979 thousands as of 1 January 2015 and Euro 30,101 thousands as of 31 December 2015);
- Reclassification of provisions for risks and charges as a direct adjustment on the related asset values, that is tangible fixed assets (Euro 1,113 thousands as of 1 January 2015), intangible fixed assets (Euro 1,221 thousands as of 1 January 2015), shareholdings (Euro 991 thousands as of 1 January 2015);
- Reclassification of accrued interest payables to noteholders (other current liabilities) in Short-term financial liabilities (Euro 1,164 thousands as of 1 January 2015 and Euro 2,913 thousands as of 31 December 2015).

Consolidated income statement

- Reclassification of extraordinary income in the related profit or loss items, according to IFRS, as an increase in operating revenues (Euro 57,583 thousands) and other operating expenses (Euro 6.370 thousands).

Consolidated statement of financial position

1. Property, plant and equipment: (-273,437 thousand euros at 1 January 2015 and -240,964 thousand euros at 31 December 2015). The adjustments mainly relate to the reclassification to intangible assets, in accordance with IFRIC 12, of the net book value of the netting, plant and other facilities related to the gas distribution and concessionary LPG (-273,624 thousand at 1 January 2015 and - Euro 241,323 thousand at December 31, 2015);

2. Goodwill: (-9,638 thousand euros at 31 December 2015). The adjustments refer to:

a. Reversal of goodwill's amortization recorded under ITA GAAP on business combinations recognized prior to FTA (increase of Euro 1,506 thousands as of 31 December 2015). In case of non-retroactive adopting of IFRS 3, IFRS 1 determines goodwill's carrying value according to ITA GAAP as the amount of goodwill to be recognized in the opening financial statements. By applying the exemption allowed by IFRS 1, related to business combinations occurred before transition to IFRS (1 January 2015), it was possible to maintain the existing goodwill amount on the basis of their latest book value, in accordance with previous accounting principles adopted.
b. Recognition of Vea S.r.l. and Gastronto S.r.l. acquisitions in accordance with IFRS 3, as described in the section "Business combinations and goodwill" (- Euro 11,144 thousand at 31 December 2015);

3. Intangible assets: (+240,535 thousand euros at 1 January 2015 and +225,926 thousand euros at 31 December 2015).

Adjustments mainly relate to:

a. In accordance with IFRIC 12, the net book value related to property, plant and other equipment related to the gas and GPL service concession arrangements and related contributions from other non-current liabilities, have been reclassified to Intangible Assets (increase of Euro 244,842 thousands as of 1 January 2015 and Euro 215,174 thousands as of 31 December 2015);

b. Write-off of Start-up, expansion and advertising costs that do not satisfy IAS 38 recognition requirements. These costs capitalized in previous years have been written off and expensed and, as a consequence, related amortization has been reversed from income statement (decrease of Euro 2,202 thousands as of 1 January 2015 and Euro 2,725 thousands as of 31 December 2015);

c. Reversal of costs related to bonds issue, capitalized according to ITA GAAP. In transitioning to IFRS, those costs have been recorded as a decrease to the bond total amount (non-current liabilities), according to amortized cost, as required by IAS 39 (decrease of Euro 1,806 thousands as of 1 January 2015 and Euro 2,772 thousands as of 31 December 2015);

d. Recognition of Vea S.r.l. and Gastronto S.r.l. acquisitions in accordance with IFRS 3, as described in the section "Business combinations and goodwill" (increase of Euro 18,022 thousands as of 31 December 2015).

4. Investments: (-1,074 thousand euros at 1 January 2015 and -525 thousand euros at 31 December 2015).

Adjustments relate to the impact of the IFRS conversion applied to the financial statement of the associated companies and joint ventures, accounted for using equity method. Adjustments mainly relate to:

a. Write-off of Start-up, expansion and advertising costs that do not satisfy IAS 38 recognition requirements. These costs capitalized in previous years have been written off and expensed and, as a consequence, related amortization has been reversed from income statement (decrease of Euro 57 thousands as of 1 January 2015, and decrease of Euro 41 thousands as of 31 December 2015);

b. The effective portion related to IRS derivatives has been recorded at its fair value amount (decrease of Euro 1,026 thousands as of 1 January 2015 and Euro 901 thousands as of 31 December 2015). A similar accounting has been applied to the Hedging Reserve, in the liabilities section.

c. Recognition of implicit Goodwill related to investment in EDMA S.r.l., resulting from Prometeo S.p.A. consolidation. With referring to this *business combination,* consummated before FTA, the Estra Group took the decision not to apply IFRS 3 with retrospective effects (increase of Euro 414 thousands as of 31 December 2015).

5. Other no-current financial assets (-1,657 thousand euros at 1 January 2015 and -1,552 thousand euros at 31 December 2015).

Adjustments mainly refer to intercompany receivables/payables elimination between Holding company and the subsidiary Serenia S.r.l.. The company was in liquidation process, deconsolidated and recorded at its estimated realizable value in financial statement according Italian GAAP. As required by IFRS 5, the subsidiary is consolidated in a single line within assets/liabilities held for sale section.

6. Deferred tax assets: (+3,846 thousand euros at 1 January 2015 and +7,205 thousand euros at 31 December 2015).

Adjustments reflect the recognition of the related deferred tax effect of the adjustments recorded in the transition from ITA GAAP to IFRS.

7. Inventories: (-859 thousand euros as of 1 January 2015 and -611 thousand euros as of 31 December 2015).

Adjustments refer to the final gas storage inventory belonging to Exo Energy Trading S.r.l., as a consequence of its adjustment on fair value, measured referring to official prices on stock market at measurement date.

8. Trade and Other Receivables: (-261 thousand euros as of 1 January 2015 and 31 December 2015)

Adjustments mainly refer to intercompany receivables/payables elimination between Holding company and the subsidiary Serenia S.r.l.. The company was in liquidation process, deconsolidated and recorded at its estimated realizable value in financial statement according Italian GAAP. As required by IFRS 5, the subsidiary is consolidated in a single line within assets/liabilities held for sale.

9. Other current Assets: (-681 thousand euros as of 1 January 2015 and -1,349 thousand euros as of 31 December 2015).

Adjustments mainly refer to the recognition of transaction costs, recorded in prepaid expenses according to ITA GAAP, while accounted for at amortized cost, as required by IAS 39 and consequently reclassified in non-current liabilities for IFRS.

10. Current financial assets: (+5,870 thousand euros as of 1 January 2015 and +17,817 thousand euros as of 31 December 2015).

Adjustments relate to:

a. Recognition of commodity Swap contracts with positive fair value at measurement date (increase of Euro 1,681 thousands as of 1 January 2015 and Euro 1,429 thousands as of 31 December 2015);
b. Recognition of forward contracts related to trading gas activities with positive fair value at measurement date (increase of Euro 4,188 thousands as of 1 January 2015 and Euro 16,388 thousands as of 31 December 2015).

11. Assets held for sale: (+4,368 thousand euros as of 1 January 2015 and +3,691 thousand euros as of 31 December 2015).

Adjustments refer to consolidation into a single line of Serenia S.r.l. and its subsidiary Useneko held for sale, in accordance with IFRS 5 requirements.

Financial Statement Position – Liabilities and Equity

12. Provisions: (-63 thousand euros as of 1 January 2015 and -1,255 thousand euros as of 31 December 2015).

Adjustment refers to:

a. Reversal of the accrual to Provision for Risks and Charges, recorded in financial statement as of 31 December 2015, in accordance with Italian GAAP referring to negative fair value financial derivate instrument accounting, that does not satisfy necessary conditions and requirements for being considered a derivative hedging. Negative fair value has been recorded in financial statement in accordance to IFRS principles, specifically into current financial liabilities from FTA date (Euro 0 thousands as of 1 January 2015 and decrease of Euro 1,084 thousands as of 31 December 2015);
b. Valuation of agents' termination indemnity in accordance with IAS 37 requirements (decrease of Euro 63 thousands as of 1 January 2015 and Euro 171 thousands as of 31 December 2015).

13. Provisions for employee benefits: (+847 thousand euros at 1 January 2015 and +370 thousand euros at 31 December 2015).

Under ITA GAAP, the liability for termination indemnities is posted at nominal value. Under IFRS, the liability for termination indemnities falls under the category of defined benefit plans subject to actuarial valuation to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date.

The adjustment is a direct consequence of re-measurements of the net defined benefit liability, according to actuarial assumptions, in adoption of IAS 19 requirements.

14. Non-current portion of long term financial liabilities: (-2,633 thousand euros as of 1 January 2015 and -4,338 thousand euros as of 31 December 2015).

Adjustment relates to amortized cost with reference to long term financial liabilities and bonds. Under IFRS, transaction costs incurred to obtain loans are recognized in accordance with IAS 39 as a reduction of the related financial liability and measured at amortized cost using the effective interest rate method. Under ITA GAAP such costs are capitalized within the “Other intangible fixed assets” category and amortized on the basis of the duration of the loan.

15. Deferred Tax Liabilities: (+1,927 thousand euros as of 1 January 2015 and +11,492 thousand euros as of 31 December 2015).
    a. Deferred taxes on the customer list recognized in applying IFRS 3 to the Vea S.r.l. and Gastronto S.r.l. acquisitions, as described in paragraph “Business combination and Goodwill” (+5,175 thousands euro as of 31 december 2015);
    b. Recognition of other tax effects on reconciliation items between ITA GAAP financial statements and IAS / IFRS financial statements (+1,927 thousand euros at 1 January 2015 and +6,317 thousand euros at December 31, 2015).

16. Other non-current liabilities: (-28,868 thousand euros as of 1 January 2015 and -27,525 thousand euros as of 31 December 2015).

Adjustments mainly refer to the reclassification to intangible assets of contributions received on property, plant and other equipment related to the gas and GPL service concession arrangements (decrease of Euro 28,782 thousands as of 1 January 2015 and Euro 27,317 thousands as of 31 December 2015) in accordance with IFRIC 12 requirements.

17. Other financial liabilities: (+8,479 thousand euros as of 1 January 2015 and +19,874 thousand euros as of 31 December 2015).

Adjustments refer to:

a. Recognition of commodity *swap* contracts with negative fair value at measurement date (increase of Euro 1,684 thousands as of 1 January 2015 and Euro 6,164 thousands as of 31 December 2015);
b. Recognition of IRS derivatives with a negative fair value at measurement date (increase of Euro 2,994 thousands as of 1 January 2015 and Euro 2,477 thousands as of 31 December 2015);
c. Recognition of forward contracts with negative fair value at measurement date (increase of Euro 3,801 thousands as of 1 January 2015 and Euro 11,233 thousands as of 31 December 2015).

18. Liabilities directly associated with assets held for sale: (+2,507 thousand euros at 1 January 2015 and +1,930 thousand euros at 31 December 2015).

Adjustments refer to the consolidation on a single line of subsidiary Serenia S.r.l (and its own subsidiary Useneko) within liabilities held for sale, in accordance with IFRS 5 requirements.

Consolidated Income statement and consolidated income statement of comprehensive income

19. Core Business Revenues: (-776 thousand euros).

Adjustments mainly relate to:

a. Reversal of increases to non-current assets from in-house production costs, because they do not meet the necessary capitalization requirements established by IAS 38 (decrease of Euro 572 thousands);
b. Direct recognition to property, plant and equipment of capitalizable costs, and corresponding offsetting of the revenue for increases to non-current assets with the related costs of services (decrease of Euro 310 thousands).

20. Other revenue and income: (-1,329 thousand euros)

Adjustments mainly refer to:

a. Reclassification as a reduction of depreciation expense, on the basis of the correct accrual accounting principle, of contributions received on networks, systems and others equipment related to gas distribution activities, as established by IFRIC 12 (decrease of Euro 688 thousands);

b. Recognition to net equity of the extraordinary income derived from the acquisition of an additional 20.57% in Gergas S.p.A., already controlled with 59.34%, in accordance with IFRS 3 requirements on changes in group ownership on controlled subsidiaries (decrease of Euro 608 thousands).

21. Purchases of goods: (-248 thousand euros)

Adjustments relate to change in inventory value of gas in storage belonging to Exo Energy Trading S.r.l., rated on their fair value amount at the reference date (decrease of Euro 248 thousands).

22. Services: (+635 thousand euros)

Adjustments refer to:

a. Recognition to expense of the start-up, expansion and advertising costs that do not meet necessary capitalization requirements established by IAS 38 (increase of Euro 1,062 thousands);
b. Reversal of transaction costs on new long term loans, previously recorded as costs services under Italian GAAP and recognized at amortized cost under IFRS (decrease of Euro 209 thousands);
c. Recognition both as revenues and as cost of services, in accordance with IFRIC 12, of investments on gas infrastructures on concession (increase of Euro 91 thousands);
d. Direct recognition to property, plant and equipment of capitalizable costs, and corresponding offsetting of the revenue for increases to non-current assets with the related costs of services (decrease of Euro 310 thousands).

23. Labour and related costs: (-67 thousand euros)

Adjustments relate to actuarial assumptions, according to independent actuary appointed by Estra Group, adopted in measurement of defined benefit liabilities, in accordance to IAS 19 requirements.

24. Amortisation, depreciation and impairment: (- 5,047 thousand euros)

Adjustments relate to:

a. Reversal of amortization recorded under ITA GAAP on start-up, expansion and advertising costs, that do not meet necessary capitalization requirements established by IAS 38 (decrease of Euro 1,111 thousands);
b. Reclassification as direct reduction of depreciation, on the basis of the correct accrual accounting principle, of contributions received on networks, systems and others equipment related to gas distribution activities, recorded as established by IFRIC 12 (decrease of Euro 688 thousands);
c. Reversal of goodwill's amortization recorded under Italian GAAP, on which no impairment loss was necessary for IFRS purposes (decrease of Euro 1,506 thousands);
d. Recognition at amortized costs, as IAS 30 established, of transaction costs on bonds, previously recorded as costs of services under Italian GAAP (decrease of Euro 507 thousands);
e. Reversal of accrual on provision for risks recorded under Italian GAAP and related to the accounting of negative fair value amount, in the case that the derivative does not satisfy the necessary requirements for hedge accounting. Under IFRS, the negative fair value amount has been recorded within the current financial liabilities at FTA date (decrease of Euro 1,804 thousands);
f. Adjustment to agents' termination indemnity provision, valuated in accordance with IAS 37, that requires a specific measurement on actuarial assumptions (decrease of Euro 108 thousands).
g. Reversal of goodwill's amortization recorded under ITA GAAP following the consolidation of Vea S.r.l. and Gergas S.p.a. and recognition of the amortization on the customer list resulting under IFRS from the PPA of Vea S.r.l. (decrease of Euro 37 thousands).

25. Income / (charges) from commodity risk management: : (+35 thousand euros). Adjustments refer to:

a. Recognition of the change on fair value trading forward contracts (decrease of Euro 4,733 thousands);
b. Recognition of the change on *fair value* commodity Swap contracts (increase of Euro 4,768 thousands).

26. Income/ (charges) from equity investments of **a** non-financial nature: **:** (+1,073 thousand euros)
The item includes the Estra Group quota results on the equity investment in EDMA Group, accounted according to equity method, and included within operating results since the Estra Group plays a fundamental operative and industrial role. Equity results determined under Italian GAAP (Euro 644 thousands) have been adjusted in order to consider the effects of IFRS conversion (Euro 429 thousands). Adjustments mainly refer to the reversal of the goodwill amortization deriving from the consolidation of Prometeo S.p.A., since such business combination was completed before FTA and the Estra Group decided to not apply IFRS 3 with retrospective effects (increase of Euro 414 thousands).

27. Financial Expenses: **:** (-730 thousand euros). Adjustments mainly relate to:

a. Reclassification of the figurative financial expense on the accrual for employee benefits (defined as "*interest costs*") from labor costs (decrease of Euro 112 thousands);
b. Recognition of the effects of amortized costs on long term loans and bonds, in accordance with IAS 30 requirements (decrease of Euro 784 thousands);
c. Recognition of the change in fair value of IRS contracts that do not satisfy necessary requirements for hedge accounting (increase of Euro 166 thousands).

28. Income/ (charges) from equity investments: (+412 thousand euros). Adjustments mainly refer to:
    a. Reclassification in "net result of discontinued activities" of the adjustment related to the estimate realizable value of subsidiaries Serenia S.r.l. and Useneko assets. Under ITA GAAP the item was recorded within "Value adjustments of financial assets", as described in paragraph "non-current assets" above (increase of Euro 1,057 thousands):
    b. Reclassification in the "Equity method valuation effect" line of Estra Group portion related to the result achieved in 2015 by EDMA Group (decrease of Euro 644 thousands).

29. Income taxes: (+677 thousand euros). Adjustments amounting to Euro 677 thousands mainly refer to the applicable tax effects on the adjustments recorded in the transition from ITA GAAP to IFRS.

30. Discontinued operations: The item amounting to Euro 1,057 thousands includes the adjustment to the net estimated realizable value on assets of subsidiaries Serenia S.r.l. and Useneko held for sale, as described in paragraph "non-current assets held for sale".

31. Change in hedging reserve: The item amounting to Euro 298 thousands represents the comprehensive income component of the change in hedging reserve, recorded for the effective portion of the IRS hedges.

32. Actuarial gains (losses): The item amounting to Euro 397 thousands represents the comprehensive income component deriving from the change in "Actuarial reserve IAS 19", recorded on actuarial gains and losses related to changes in actuarial assumptions for measurement of provisions for employee benefits, in accordance with IAS 19 requirements.

33. Equity method valuation effect: The item amounting to Euro 126 thousands represents the comprehensive income component related to the change in "Hedging reserve" in the financial statements of subsidiaries and controlled companies, according to the equity method accounting.

11. Shareholders' Equity as of 1 January 2015, as of 31 December 2015 and profit for the year 2015

Based on IFRS adjustments outlined above, in the table below is represented a reconciliation of consolidated shareholders' Equity at the beginning of the year, as of 31 December 2015 and profit for the year.

		Net income as of 1 January 2015				
Consolidated shareholders' equity (€000)	**Notes**	Hedging reserve	FTA Reserve	Group shareholders' equity	Minority interests	**Total equity**
ITA GAAP				**233,134**	**12,088**	**245,222**
Intangible fixed assets elimination IAS 38	**a**		(1,484)		(3)	**(1,487)**
Amortized costs applied to loans and bonds	**b**		(15)		1	**(14)**
IRS derivatives fair value	**c**	(1,230)	(907)		(14)	**(2,151)**
ITA GAAP derivatives accrual to provision adjustment	**d**					
Impact IAS 19 recalculation on termination indemnities	**e**		(530)		(42)	**(572)**
Commodity Swap derivatives fair value	**f**		(126)		104	**(22)**
Forward contracts fair value	**g**		143		119	**262**
Inventories in storage fair value	**h**		(318)		(264)	**(581)**
Goodwill	**i**					
Recording of Vea and Gastronto	**l**					
Recording extraordinary income raised in Gergas acquisition	**m**					
Other adjustments and IFRS restatements			(12)		(5)	**(17)**
IFRS adjustments referred to companies accounted at Equity	**n**	(1,027)	(104)			**(1,131)**
Total adjustments		**(2,257)**	**(3,352)**		**(104)**	**(5,713)**
IFRS Restated		**(2,257)**	**(3,352)**	**233,134**	**11,984**	**239,509**

		Consolidated shareholders' Equity as of 31 December 2015								
Consolidated shareholders' Equity (€000)	**Notes**	Profit for the Group (Year 2015)	Profit attributable to minority interests (Year 2015)	**Profit for the Year 2015**	Hedging reserve	Actuarial reserve IAS 19	FTA Reserve	Other Equity components attributable to the Group	Other Equity components attributable to minority interests	**Consolidated shareholders' Equity**
ITA GAAP		**32,531**	**1,431**	**33,962**				**228,644**	**8,807**	**271,413**
Intangible fixed assets elimination IAS 38	**a**	(419)	2	**(417)**			(1,484)		(3)	**(1,904)**
Amortized costs applied to loans and bonds	**b**	(60)	0	**(60)**			(15)		1	**(73)**
IRS derivatives fair value	**c**	82		**82**	(934)		(907)	0	(12)	**(1,770)**
ITA GAAP derivatives accrual to provision adjustment	**d**	824		**824**						**824**
Impact IAS 19 recalculation on termination indemnities	**e**	13	2	**16**		380	(530)		(26)	**(159)**
Commodity Swap derivatives fair value	**f**	(1,733)	(1,467)	**-3,2**			(126)		104	**(3,223)**
Forward contracts fair value	**g**	1,764	1,463	**3,227**			143		119	**3,489**
Inventories in storage fair value	**h**	92	76	**168**			(318)		(264)	**(414)**
Goodwill	**i**	968	49	**1,017**						**1,017**
Recording of Vea and Gastronto	**l**	193	19	**212**					1,491	**1,702**
Reconrding extraordinary income raised in Gergas acquisition	**m**	(608)		**(608)**	(7)			599	16	**0**
Other adjustments and IFRS restatements		(7)	(3)	**(10)**			(12)		(5)	**(27)**
IFRS adjustments referred to companies accounted at Equity	**n**	428		**428**	(901)		(104)	0		**(576)**
Total adjustments		**1,538**	**141**	**1,679**	**(1,842)**	**380**	**(3,352)**	**599**	**1,421**	**(1,114)**
IFRS Restated		**34,069**	**1,572**	**35,641**	**(1,842)**	**380**	**(3,352)**	**229,243**	**10,228**	**270,299**

Notes to the main IFRS adjustments

a. Write-off of start-up, expansion and advertising costs that do not satisfy IAS 38 recognition requirements. As a consequence of first-time adoption of IFRS, some previously capitalized costs have been written off from intangible assets, as well as the related amortization expense;
b. Recognition of transaction costs on loans and bonds, capitalized according to amortized cost, in accordance with IAS 39 requirements;
c. Recording at fair value of IRS derivatives;
d. Reversal of the provision recorded under Italian GAAP on negative fair value on derivatives that do not satisfy the necessary requirements in order to be qualified as hedge. The negative fair value has been recorded under IFRS within current financial liabilities, from the date of first-time adoption of IFRS;
e. The adjustments is related to the effects of actuarial assumptions adoption, in the valuation on employee benefits in accordance to IAS 19 requirements;

f. Recognition of commodity Swap derivatives with negative fair value on the reference date (1 January 2015 and 31 December 2015);
g. Recognition of forward contracts for gas trading activities with negative fair value on the reference date (1 January 2015 and 31 December 2015);
h. Charges refer to adjustments to fair value at accounting date for final gas in storage belonging to Exo Energy Trading S.r.l.;
i. Reversal of goodwill's amortization recorded under Italian GAAP on business combination realized before FTA;
j. Recognition of the purchase price allocation ("PPA") related to the 2015 acquisitions of Vea S.r.l and Gastronto S.r.l., in accordance with IFRS 3 requirements;
k. Recognition to net equity of the extraordinary income derived from the acquisition of an additional 20,57% in Gergas S.p.A., already controlled with a 59.34% interest, in accordance with IFRS 3 requirements;
l. Adjustments refer to the effects of the IFRS transition on the investments in associated companies and joint ventures, accounted for under the equity method.

12. Impacts on cash flows as of 31 December 2015

The adoption of IFRS has not determined any significant change or impact on cash flow consolidated statement, for that reason the reconciliation prospect has not been represented. The following table shows the reconciliation of the net financial debt as of 31 December 2015 between the amounts determined in accordance with Italian GAAP and those determined under IFRS. The net financial debt derives from the difference between financial liabilities (bonds, shareholder loans, amounts due to banks, amounts owed to other lenders) and financial assets (cash and cash equivalents).

Description		In thousands of Euro
Payables to banks and other lenders		451,810
(Cash and cash equivalents)	-	281,404
(Receivables from banks)	-	351
ITA GAAP net financial debt		170,055
Amortized costs applied to loans and bonds	-	4,033
Fair value related to IRS derivatives		2,477
Fair value related to Commodity Swap derivatives and forward contracts for trading activities	-	420
IFRS adjustments	-	2,281
IFRS net financial debt		167,774