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

Registered office in Via Ugo Panziera, Prato (PO)
Share Capital Euro 228,334,000.00 fully paid up
Tax code and entry number in the Register of Companies of Prato 02149060978,
Economic and Administrative Index (REA) No. 0505831

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AS AT DECEMBER 31, 2017

OFFICERS

Board of directors
Chairman Francesco Macrì
CEO Alessandro Piazzi
General Manager Paolo Abati
Director Roberta De Francesco
Director Chiara Sciascia

Board of Statutory Auditors
Athos Vestrini (Chairman)
Saverio Carlesi
Patrizia Berchiatti

Independent Auditors
EY S.p.A.

Consolidated Financial Statements

Consolidated Statement of Income for the years ended as at December 31, 2017, 2016 and 2015

Consolidated Statement of Income		For the years ended as at December 31,					
		2017		2016		2015	
(values in thousands of Euro)	Notes	Value	of which with Related Parties (Note 14)	Value	of which with Related Parties (Note 14)	Value	of which with Related Parties (Note 14)
Revenues from sales and services	8.1.1	979,126	3,311	1,007,144	6,393	844,871	84,996
Other operating income	8.1.2	37,378	2,070	37,250	2,334	76,955	3,661
Purchases of goods, raw materials and ancillary materials	8.2.1	(716,788)	(49)	(760,594)		(672,266)	(711)
Costs for services	8.2.2	(133,913)	(12,834)	(124,116)	(19,473)	(66,079)	(1,060)
Costs for leased third-party assets	8.2.3	(12,855)	(2,021)	(12,224)	(2,025)	(15,769)	(2,000)
Personnel costs	8.2.4	(34,218)	(12)	(32,319)		(31,229)	
Amortisation, depreciation, provisions and impairment	8.2.5	(42,964)		(49,262)		(41,944)	
Other operating expenses	8.2.6	(31,444)	(23)	(28,501)	(3)	(26,347)	
Financial income (expenses) from commodity risk management	8.3	150		(538)		35	
Portion of income for valuation of non-financial long-term investments using the equity method	8.4	225		470		1,073	
Operating result		**44,697**	**(9,558)**	**37,310**	**(12,774)**	**69,300**	**84,886**
Financial income	8.5	3,335	207	4,447	182	4,154	649
Financial expenses	8.6	(17,548)	(409)	(13,465)	(458)	(12,937)	(503)
Gains (losses) on foreign exchange		-		(3)		9	
Portion of income (expenses) for valuation of financial long-term investments using the equity method	8.7	280		(348)		877	
Income before taxes		**30,764**	**(9,760)**	**27,941**	**(13,050)**	**61,403**	**85,032**
Income taxes for the year	8.8	(14,321)		(10,892)		(24,704)	
Net income from continuing operations		**16,443**	**(9,760)**	**17,049**	**(13,050)**	**36,699**	**85,032**
Net losses from discontinued operations	8.9	(377)		(2,000)		(1,057)	
Net income		**16,066**	**(9,760)**	**15,049**	**(13,050)**	**35,642**	**85,032**
Net income attributable to non-controlling interests		5,046		4,033		1,573	
Net income attributable to the Group		11,020		11,016		34,069	

Earnings per share (Note 11)	For the years ended as at December 31,		
	2017	2016	2015
Basic earnings per ordinary share	0.05	0.05	0.17
Diluted earnings per ordinary share	0.05	0.05	0.17

Earnings per share from continuing operations (Note 11)	For the years ended as at December 31,		
	2017	2016	2015
Basic earnings per ordinary share	0.06	0.06	0.17
Diluted earnings per ordinary share	0.06	0.06	0.17

Non-recurrent items, defined under CONSOB Resolution No. 15519 of July 27, 2006 as "items (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, are provided in Note 8.10 "Non-recurring, items and/or unusual significant transactions".

Consolidated statement of comprehensive income for the years ended as at December 31, 2017, 2016 and 2015

Consolidated statement of comprehensive income	**Notes**	**For the years ended as at December 31,**		
(values in thousands of Euro)		**2017**	**2016**	**2015**
Net income		**16,066**	**15,049**	**35,642**
of which:				
Net income attributable to non-controlling interests		*5,046*	*4,033*	*1,573*
Net income attributable to the Group		*11,020*	*11,016*	*34,069*
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)				
Change in cash flow hedge reserve	**9.1**	**164**	**67**	**298**
- Gains on hedge of a net investment		*214*	*236*	*351*
- Taxes		*(52)*	*(169)*	*(53)*
Portion of other comprehensive income related to investments accounted using the equity method	**9.3**	**131**	**(90)**	**126**
- Gains (losses)		*172*	*(119)*	*232*
- Taxes		*(41)*	*28*	*(105)*
Total other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)		**295**	**(23)**	**425**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)				
Actuarial gains (losses)	**9.2**	**82**	**(175)**	**397**
- Actuarial gains (losses)		*108*	*(230)*	*522*
- Taxes		*(26)*	*55*	*(125)*
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)		**82**	**(175)**	**397**
Total other comprehensive income (net of tax)	**9**	**377**	**(198)**	**821**
of which:				
Other comprehensive income attributable to non-controlling interests		*44*	*(3)*	*19*
Other comprehensive income attributable to the Group		*333*	*(195)*	*802*
Total Comprehensive Income		**16,443**	**14,851**	**36,463**
of which:				
Net comprehensive income attributable to non-controlling interests		*5,090*	*4,030*	*1,592*
Net comprehensive income attributable to the Group		*11,353*	*10,821*	*34,871*

Consolidated statement of financial position as at December 31, 2017, 2016 and 2015

Consolidated statement of financial position	Notes	As at December 31,					
		2017		2016		2015	
(values in thousands of Euro)		Value	of which with Related Parties (Note 14)	Value	of which with Related Parties (Note 14)	Value	of which with Related Parties (Note 14)
Tangible assets	10.1.1	82,033		47,882		46,595	
Goodwill	10.1.3	12,056		12,056		12,056	
Intangible assets	10.1.5	352,277		336,722		250,874	
Investments	10.1.6	29,523	29,523	36,229	36,229	45,889	45,889
Other non-current financial assets	10.1.7	9,560	4,560	7,502	7,502	6,776	6,776
Other non-current assets	10.1.8	4,585		1,936		969	
Deferred tax assets	10.1.9	25,353		25,540		24,881	
NON-CURRENT ASSETS		**515,387**	**34,083**	**467,868**	**43,731**	**388,039**	**52,665**
Inventories	10.2.1	22,690		15,572		32,945	
Trade receivables	10.2.2	294,030	14,303	300,408	10,604	251,407	12,403
Tax receivables	10.2.3	35,777		22,195		8,558	
Other current assets	10.2.4	19,986		25,310		27,925	
Other current financial assets	10.2.5	12,259		28,648		18,168	
Cash and cash equivalents	10.2.6	229,774		299,236		281,404	
CURRENT ASSETS		**614,516**	**14,303**	**691,369**	**10,604**	**620,407**	**12,403**
Assets Held for Sale	10.2.7	**2,350**	**2,350**	**2,164**	**2,164**	**3,691**	**3,691**
TOTAL ASSETS		**1,132,253**	**50,736**	**1,161,401**	**56,499**	**1,012,138**	**68,759**
Share Capital		228,334		205,500		205,500	
Reserves		62,580		56,787		18,930	
Net Income for the year attributable the Group		11,020		11,016		34,069	
Total Group Shareholders' Equity		**301,934**		**273,302**		**258,499**	
Capital and reserves attributable to non-controlling interests		24,940		43,183		10,228	
Net Income attributable to non-controlling interests		5,046		4,035		1,572	
Total Shareholders' Equity attributable to non-controlling interests		**29,986**		**47,218**		**11,801**	
TOTAL SHAREHOLDERS' EQUITY	10.3	331,920		**320,521**		**270,299**	
Provisions for risks and charges	10.4.1	11,350		16,570		15,181	
Employee Leaving Indemnity provision	10.4.2	7,605		7,124		6,627	
Non-current portion of long term financial liabilities	10.4.3	368,240	11,110	334,807	12,545	294,589	13,980
Deferred tax liabilities	10.4.4	38,667		36,109		24,386	
Other non-current liabilities	10.4.5	767		2,771		3,319	
NON-CURRENT LIABILITIES		**426,629**	**11,110**	**397,382**	**12,545**	**344,101**	**13,980**
Current portion of long term financial liabilities	10.4.3	67,263	1,435	52,143	1,435	48,642	1,435
Short-term financial liabilities	10.5.1	10,322		115,815		104,547	
Trade payables	10.5.2	209,824	5,165	194,625	12,269	174,567	8,404
Tax payables	10.5.3	21,833		12,347		9,249	
Other current liabilities	10.5.4	51,236		36,400		38,929	
Other financial liabilities	10.5.4	13,131		30,862		19,874	
CURRENT LIABILITIES		**373,609**	**6,600**	**442,191**	**13,704**	**395,807**	**9,839**
Liabilities Held for Sale	10.2.7	**95**	**95**	**1,307**	**1,307**	**1,930**	**1,930**
TOTAL LIABILITIES and Shareholders' Equity		**1,132,253**	**17,805**	**1,161,401**	**27,556**	**1,012,138**	**25,749**

Consolidated statement of changes in equity as at December 31, 2017, 2016 and 2015

Consolidated statement of changes in equity (Note 10.3) (in thousands of Euro)	**Share Capital**	**Share premium reserve**	**Legal reserve**	**Cash Flow Hedge Reserve**	**IAS 19 Reserve**	**Other reserves**	**Net income of the Group**	**Group Shareholders' Equity**	**Shareholders' Equity attributable to non-controlling interests**	**Total Capital**
Balance as at January 1, 2015	**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									(3)	(3)
Total comprehensive income							34,069	34,069	1,573	35,642
Other components of the Comprehensive Income Statement				422	380		-	802	19	821
Balance as at December 31, 2015	**205,500**	**6,510**	**6,141**	**(1,842)**	**380**	**7,740**	**34,069**	**258,499**	**11,800**	**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 of Prometeo through partial disposal of Estra Energie					(6)	14,003		13,997	32,205	46,201
Other changes					5	(34)		(29)	11	(18)
Total comprehensive income							11,016	11,016	4,033	15,049
Other components of the Comprehensive Income Statement				(25)	(170)		-	(195)	(3)	(198)
Balance as at December 31, 2016	**205,500**	**6,510**	**6,879**	**(1,868)**	**209**	**45,056**	**11,016**	**273,302**	**47,218**	**320,521**
Allocation of 2016 profit										
- Consolidated profit for the previous year			771			(629)	(142)			
- Dividends							(10,874)	(10,874)	(3,709)	(14,583)
Increase in Estra share capital due to transfer by Multiservizi	22,834	19,646			(49)	(12,734)		29,697	(9,449)	20,248
Increase in Centria share capital due to transfer by Offida						727		727	343	1,070
Acquisition of non-controlling interests in existing subsidiaries					(4)	(9,550)		(9,554)	(6,977)	(16,531)
Sale of shares in subsidiaries without loss of control						302		302	3,468	3,770
Acquisition of control in existing investee companies				(1,034)				(1,034)		(1,034)
Closure of cash flow hedges				2,010				2,010		2,010
Other changes						1,006		1,006	(999)	7
Portion of the total comprehensive income acquired by changes to interests in subsidiaries					15	4,984		4,999	(4,999)	
Total comprehensive income							11,020	11,020	5,046	16,066
Other components of the Comprehensive Income Statement				293	40			333	44	377
Balance as at December 31, 2017	**228,334**	**26,156**	**7,650**	**(599)**	**211**	**29,162**	**11,020**	**301,934**	**29,986**	**331,920**

Consolidated statement of cash flows for the years ended as at December 31, 2017, 2016 and 2015

	Consolidated statement of cash flows	**For the years ended as at December 31,**		
	(values in thousands of Euro)	**2017**	**2016**	**2015**
	Net income for the year	16,066	15,051	35,641
	Income taxes	14,320	10,892	24,704
	Interest expense	14,213	9,017	8,783
	Gross profit for the year	**44,599**	**34,960**	**69,128**
	(Gains) Losses from the sale of assets	-	-	(54,911)
	Depreciation and amortisation of tangible and intangible assets	31,440	30,207	18,954
	Impairment of tangible and intangible assets	1,745	2,582	9,304
	Portion of capital-based grants	(66)	(66)	(48)
	Valuation of investments	(563)	(122)	(1,950)
	Results from discontinued operations	377	2,000	1,057
	Employee leaving indemnity accrual / (revelsals)	311	218	(55)
	Accruals/(reversals) to provisions for risks and other accruals	(261)	1,616	11,337
	Cash flows before changes in net working capital and other assets and liabilities	**77,582**	**71,395**	**52,816**
	Changes in trade receivables	27,861	7,641	(29,389)
	Changes in inventories	(7,118)	18,648	(4,113)
	Changes in trade payables	15,140	17,390	(8,645)
	Changes in other current assets and liabilities	11,393	(33,608)	12,070
	Changes in tax receivables and payables	(1,305)	(17,622)	14,592
	Changes in employee leaving indemnity provision (net of accrual)	(143)	(202)	(1,017)
	Cash flows after changes in net working capital and other changes	**123,410**	**63,642**	**36,314**
	Collected interests	3,335	4,448	4,154
	Paid interests	(16,152)	(12,541)	(10,968)
	Paid taxes	(19,970)	(19,393)	(11,359)
	Utilisation of provisions	(677)	(627)	(176)
A	**Cash flow deriving from operating activities**	**89,946**	**35,529**	**17,965**
	of which with related parties	**(20,563)**	**(13,050)**	**92,480**
	Investments in tangible assets	(5,054)	(4,809)	(3,139)
	Investments in intangible assets	(20,541)	(27,740)	(25,216)
	Disposal in tangible and intangible assets	10,191	1,444	84,326
	(Investments)/Disposal in investments	(23,596)	(1,438)	(8,893)
	(Investments)/Disposal in assets held for sale/disposal	(1,775)	(1,096)	(957)
	(Acquisition) or sale of subsidiaries net of cash and cash equivalents	(6,386)	139	(14,947)
	Other changes from investment activities	199	(213)	152
B	**Cash flow deriving from investment activities**	**(46,962)**	**(33,713)**	**31,326**
	of which with related parties			
	Increase (decrease) in non-current financial assets	(402)	(2,016)	109
	Increase (decrease) in current financial assets	(3,597)	743	338

	Decrease in other non-current assets	(4,652)	(1,728)	(11)
	Decrease in short-term bank loans	(106,968)	(21,039)	(46,195)
	Proceeds from new loans	107,000	52,000	58,140
	Repayment of bank loans	(85,011)	(87,402)	(42,198)
	Repayment of Shareholders' Loans	(1,435)	(1,435)	(1,435)
	Repayment of other lenders	(6,814)	(2,704)	(378)
	Proceeds from bonds	-	80,000	100,000
	Purchase of treasury shares	-	(11,800)	-
	Transaction fees for new loans	(302)	(2,563)	(1,785)
	Cash and cash equivalents acquired in business transfer	4,318	24,775	-
	Payment of dividends to members of the Parent Company	(10,874)	(9,984)	(4,489)
	Payment of dividends to Minority Shareholders	(3,709)	(831)	(334)
C	**Cash flow deriving from financing activities**	**(112,446)**	**16,016**	**61,762**
	of which with related parties	**1,507**	**(2,161)**	**(2,204)**
	Increase/(decrease) in cash and cash equivalents (A+B+C)	**(69,462)**	**17,832**	**111,053**
E	**Cash and cash equivalents as at January 1, 2017**	**299,236**	**281,404**	**170,351**
F	**Cash and cash equivalents as at December 31, 2017**	**229,774**	**299,236**	**281,404**

1. Corporate Information

Estra S.p.A. Energia Servizi Territorio Ambiente, in abbreviated form “Estra S.p.A.” (hereinafter also “ESTRA” or “Estra”) is a limited company registered in the Register of Companies of Prato, with registered office in Via Ugo Panziera, 16 in Prato and administrative offices in Via Toselli, 9/a in Siena and in Via Igino Cocchi, 14 in Arezzo.
The activities of the Company and its subsidiaries are described in the Segment Information Note, while the information on the Group’s structure is provided in the Group Information Note. Information on other related party relationships of the Group is provided in the Related parties Note.

This Consolidated Financial Statements of the ESTRA Group refers to the financial year ended December 31, 2017 and includes comparative data for the financial years ended December 31, 2016 and 2015 (collectively referred to the “Consolidated Financial Statements”) and was prepared for the purposes of its inclusion in the prospectus for the proposed sale and admission to listing on Mercato Telematico Azionario (Italian Equities Market), organised and managed by Borsa Italiana S.p.A., of ESTRA S.p.A. ordinary shares.

The financial statement for the year ended at December 31, 2017 was presented for approval by the Board of Directors on March 5, 2018.

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 as issued by the International Accounting Standards Board and endorsed by the European Commission (IFRS), 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 Consolidated Financial Statements are presented in Euro and all values are rounded to the nearest thousand (Euro 000), unless otherwise indicated.
The Consolidated Financial Statements have been prepared on the historical cost basis, except for trading assets and liabilities and derivative instruments that have been measured at fair value.

The preparation of the Consolidated Financial Statements required the use of estimates by management; the main areas impacted by significant evaluations and assumptions, as well as those with significant impacts on the situations presented, are discussed in the paragraph “Significant accounting estimates”.

2.2 Financial Statements

The consolidated statement of income discloses the expenses of each item by category. This format, also adopted by leading competitors and in line with international practice, is the one that best represents company results.
The consolidated statement of comprehensive income is presented, as allowed by IAS 1 (revised), in a separate statement distinguishing between components reclassifiable and not reclassifiable to the profit or loss in subsequent periods. The other components of the consolidated statement of comprehensive income are shown separately in the consolidated statement of changes in equity.

The consolidated statement of financial position presents the distinction between current and non-current assets and liabilities, as indicated below. The consolidated statement of cash flows is prepared under the indirect method, as allowed by IAS 7.

2.3 Consolidation principles

The Consolidated Financial Statements include the financial statements of Estra S.p.A. and its subsidiaries as at December 31, 2017, 2016 and 2015.

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 investees.
Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that grant the current ability to direct the relevant activities of the investee);
- exposure or rights to variable returns deriving 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:

- 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 sold 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 (loss) for the year and all OCI are attributed to the shareholders of the parent company and to the non-controlling interests, even if this results in the minority investments having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are fully eliminated under 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 interests and other components of shareholders' equity, while any resultant profit or loss is indicated on the Income Statement. Any investment retained is recognised at fair value. Similarly, in the case that control is acquired, any existing shares will be re-evaluated at the corresponding fair value, with any profit or loss recorded on the Income Statement.

2.4 Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The acquisition cost is determined as tthe 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 Group determines whether to measure the non-controlling interest in the acquiree at fair value or in relation to the proportionate share of the net assets of the acquired company. Acquisition costs are expensed as incurred and classified as 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 verifications as to whether embedded derivatives should be separated from the host contract.

In a business combination achieved in stages, previously held equity interests in the acquiree is measured at its acquisition-date fair value and the resulting profit or loss, if any, is indicated in the Income Statement.

Any potential consideration is recognised by the acquiring company at fair value at the acquisition date. The change in the fair value of the potential consideration classified as an asset or liability classified as a financial instrument subject to IAS 39 Financial Instruments: recognition and measurement, should be recognised in the Income Statement.

Goodwill is initially measured at cost, represented by 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 by the Group. 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 determines that the fair value of identifiable assets acquired and the liabilities assumed exceeds the consideration transferred, the difference is recognised in the Income Statement.

After initial recognition, goodwill is measured at cost net of any accumulated write-offs. For the purpose of impairment testing, goodwill is, from the acquisition date, allocated to each of the 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.

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) Investments in associate companies 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 considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.
The investments of the Group in its associates and joint ventures 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 share of the Group of the results of operations of associated companies or joint ventures. Any change in other comprehensive income relating to these investees is recognised in the comprehensive income statement of the Group. In addition, for any variation in an associate company or a joint venture charged directly to equity, the Group recognises its share, where applicable, in the statement of changes in equity. Unrealised gains and losses arising from transactions between the Group and associated companies or joint ventures are eliminated in proportion to the interest in associates or joint ventures.
The aggregate share attributable to the Group of the profit or loss of associated companies and joint ventures represents the result net of the taxes and shares attributable to the other shareholders of the associate or joint venture and is recognised in the Consolidated Statement of Income before or after the operating result in line with the correlation between the assets of the subsidiary and those of the entity that prepares the financial statements.
The financial statements of associated companies and joint ventures are prepared for the same reporting periods as the Group financial statements. Where necessary, the financial statements are adjusted for the purposes of alignment with Group accounting principles.

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. In the case of 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 difference as "Share of profit of associate companies and joint ventures" in the Consolidated Statement of Income.

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/non-current classification

The assets and liabilities in the Financial Statements of the Group are classified as current or non-current.

An asset is current when:

- it is expected to be realised or intended to be sold or consumed in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected to be realised within twelve after the reporting period; or
- it is formed of 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.

A liability is classified as 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; or
- the entity has no unconditional right to defer the settlement of the liability for at least twelve 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 forward contracts on commodity trading, at fair value at the end of each financial year. The notes relating to the fair value of financial instruments are summarised below:

- Valuation methods, significant accounting judgements, estimates and assumptions: Significant accounting judgements, estimates and assumptions Note;
- Quantitative disclosure of fair value measurement hierarchy: Financial instruments and fair value measurements Note;
- Financial instruments (including those carried at amortised/depreciated cost): Financial instruments and fair value measurements Note.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a regular transaction between market operators 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:

- on the principal market for the asset or liabilitiy;
  or
- in the absence of a principal market, on the most advantageous market for the assets or liabilities.

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 the ability of a market participant 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 are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
All assets and liabilities for which the fair value is measured or provided in the financial statements are categorised based on the fair value hierarchy, as shown below:

- Level 1 - Unadjusted listed market prices on active markets for identical assets or liabilities to which the entity has access on the fair value measurement date;
- Level 2 - Inputs which differ from the listed prices included in Level 1, observable directly or indirectly for the asset or liability;
- Level 3 - Valuation techniques for which the input data is not observable for the asset or liability.

The fair value measurement is classified entirely at the same level of the fair value hierarchy in which the input of the lowest hierarchy level used for the measurement is classified.

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 financial year.
The Group determines the policies and procedures for both recurring fair value measurements, such as derivatives and futures on commodity trading, and for non-recurring measurements, 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

Revenues are recognised to the extent that it is probable that the economic benefits will flow to the Group and the relative amount can be reliably measured, regardless of when the payment is received. Revenues are measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty and net of returns and rebates, trade discounts and volume

reductions. The Group has concluded that it is the principal in all of its sales contracts as it is the primary creditor, 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 recognised:

i) Sale of goods

Revenues from the sale of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.
Revenues from the sale of electricity and gas are recognised and recorded at the time of delivery, measured on the basis of pre-established meter reading schedules, and at the end of the financial year include the estimated revenue for deliveries of gas and electricity supplied to end clients and not yet invoiced as at December 31. Revenues for the sale of electricity and gas are recognised and recorded at the time of delivery and include the provision for deliveries made but not yet invoiced.

ii) Rendering of services

Revenues from distribution are recognised based on the tariffs recognised by ARERA and are subject to equalisation at the end of the financial year to reflect the remuneration recognised on an accrual basis by the Authority in respect of the investments made.
Revenues from services provided are recognised based on the successful performance, in accordance with the releted contracts.

iii) Revenues from trading activities

Revenues from the trading of natural gas are recorded according to the following types:

- Revenues from trading activities that satisfy the “own use exception” criteria are recorded at the time of delivery and are shown separately from gas purchasing costs in compliance with IAS 18;
- Revenues from trading activities that do not satisfy the “own use exception” but which constitute the physical delivery of the natural gas sold are also recorded at the time of delivery and are shown separately from gas purchasing costs in compliance with IAS 18. The Group considers itself to act as principal (operates on its own behalf as grantor) in the context of these transactions when:
  - The transactions provide for the physical delivery of the underlying asset
  - The sales and purchases are made by distinct counterparties
  - The credit risk is borne by the Group
  - This representation reflects the intentions of the function to support the operation of the industrial function.

  Sales and purchasing agreements in place on the reporting date for which the delivery of the gas has not yet occurred are measured at “fair value through profit and loss” in compliance with IAS 39, and included on the Income Statement under the item “income/(expensess) from commodity risk management”. See also Note N) Derivative instruments.

iv) Active interests

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale, active interests are 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 book value of the financial asset. Active interests are included in financial income in the Income Statement.

v) Dividends

Dividends are recognised when the Group’s right to receive the payment is established, which is generally when shareholders approve the dividend distribution.

f) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and that all attached conditions will be complied with. Grants relating to expenses are recognised as income and systematically divided between the financial years in order to correspond with the costs to be compensated. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.
In implementation of IFRIC 12, if the grant relates to Assets under concession (gas), the relative amount is recorded as a reduction of intangible assets.
When the Group receives a non-monetary grant, the asset and the relative grant are recorded at nominal value and recognised in the Income Statement in equal instalments over the expected useful life of the asset.

g) Income taxes

i) Current taxes

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 taxes relating to items recognised directly in equity are also recognised in equity and not in the Consolidated Statement of Income. Management periodically evaluates the position taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and accrues provisions where appropriate.

ii) Deferred taxes

Deferred taxes are determined 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, with the following exceptions:

- deferred tax liabilities derive from an initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor the 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, with the following exceptions:

- 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 ventures, deferred tax assets are recognised only to the extent in which it is probable that the temporary differences will reverse in the foreseeable future and that sufficient taxable income will be available to allow for the recovery of such temporary differences.

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 offset 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 arises as regards changes to facts and circumstances. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed the value of the goodwill) if it was incurred during the measurement period or recognised in the Income Statement.

iii) Indirect taxes

Expenses, revenues, assets and liabilities are recognised net of indirect taxes, including VAT, except in the following cases:

- the sales tax applied on a purchase of goods or services is not recoverable; in this case, the sales tax is recognised as part of the acquisition cost or expense of the asset, as recognised in the Income Statement;
- trade receivables and payables include applicable indirect tax.

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

h) Foreign currencies

The Group's Consolidated Financial Statements are presented in Euro, which is also the functional currency adopted by the Parent Company.

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.
Foreign-exchange differences or differences arising from the conversion of monetary items are recognised in the Income Statement. These are recognised in the Income Statement 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 the 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 the conversion of non-monetary items measured at fair value is treated in line with the recognition of gains or losses on the change in fair value of the item (i.e. conversion differences on items whose variation in fair value is recognised in the Comprehensive Income Statement or Income Statement respectively).

i) Non-current assets held for sale, disposal groups and discontinued operations

Non-current assets held for sale, disposal groups 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 refers to a set of directly related assets and liabilities destined for disposal within a single operation. Discontinued operations are a significant component of the Group, constituting 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 groups and discontinued operations are presented in two separate items 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 book value or fair value, whichever is the lower, less sale costs; any difference between the book value and the fair value reduced by the sale costs is recognised in Income Statement as a write-down.
With exclusive reference to discontinued operations, the net losses from discontinued operations during the disposal process, the capital gains/losses deriving from the disposal itself and the corresponding comparative figures for the previous financial year/reporting period are presented in a specific line of the Income Statement: net losses from discontinued operations.

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 Italy, a distribution is authorised when it is approved by the shareholders. The corresponding amount is recognised directly in equity.
The distribution of assets other than cash and cash equivalents, not including the distribution of a non-monetary asset controlled by the same entities before and after distribution, are measured at the fair value of the distributed asset; redeterminations of the fair value are recognised directly in shareholders' equity.
Upon distribution of payable dividends, any difference between the book value of the distributed asset and the book value of payable dividends is recognised in the Income Statement.

k) Tangible assets

Tangible assets are recognised 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 (e.g. personnel costs, transport, customs duties, installation costs, testing costs, notary and cadastral charges).
These costs include the expenses for the replacement of parts of plants and machinery at the time they are incurred, if the criteria for recognition are met. Where the periodic replacement of significant parts of plants and machinery is required, the Group amortises the costs separately based on the useful life of the asset. Similarly, in

the case of significant audits, the cost is included in the book value of the plant or machinery as in the case of replacement, if the recognition criteria are met. All other repair and maintenance costs are recognised in the Income Statement at the time they are incurred. The actual value of the disassembly and removal of the asset at the end of its useful life is included in the cost of the asset, if the criteria for provision are met.
The book value of tangible fixed assets is tested for write-offs, especially when events or changes in circumstances indicate that the carrying amount cannot be recovered (for details, see “Write-offs of non-current assets” Note).
Depreciation begins when the assets are available for use. Fixed assets under construction include the costs of tangible fixed assets not yet available for use. Tangible fixed assets are systematically amortised on each financial year on the basis of economic and technical rates considered to be representative of the residual possibility of using the assets.

The tables with amortisation rates that have been taken into account for amortisation of assets are given below.

For gas distribution:

Category	Depreciation period
Land	not subject to depreciation
Industrial buildings	50 years
Urban networks and connections	50 years
Connections	40 years
Stations	10 years
Tanks and storage facilities	10 years
Facilities for remote operations	10 years
Metering equipment	10 years

For other segments of activities of the Group:

Category	Depreciation period
Heat – District heating network	30 years
Heat – Thermoelectric plants	25 years
Heat – Heat management facilities under concession	7-9 years (duration of contract)
Telephony – Conduits	40 years
Telephony – Optical and copper cables	20 years
Telephony – SDH node, networking, access and video surveillance equipment	8 years
Telephony – Hardware and mobile phones	5 years
Renewable energies - Photovoltaic systems	20 years

For the remaining categories of assets amortisation rates applied are the following:

Category	Depreciation period
Lightweight constructions	10 years
Electronic machines	5 years
Furniture	8 years
Equipment	10 years
Industrial vehicles	5 years
Other vehicles	4 years

The book value of 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 from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recorded in the Income Statement.

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

Leasing

The determination of whether a contractual agreement is (or contains) a lease is based on the substance of the agreement and whether the agreement is dependent on the use of a specific asset or assets or if the agreement conveys a right to use the asset(s). The existence of a lease is established at the time that the agreement is stipulated.

A leasing contract is classified as a financial lease or operating lease at the inception date. A leasing contract that essentially transfers all risks and rewards deriving from ownership of the asset is classified as a financial lease.
Financial leases are capitalised at the starting date of the lease at the fair value of the asset or, if lower, at the present value of the fees. The fees are divided between share capital and interest share in order to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are recorded in the Income Statement.
Leased assets are depreciated on the basis of the useful life of the asset. However, in the case that there is no reasonable certainty that the Group will obtain ownership of the asset at the end of the contract, the asset is depreciated on the basis of the estimated useful life of the asset and the duration of the leasing agreement, whichever is the shorter.
An operating lease is a leasing contract that does not qualify as a financial lease. Operating lease fees are recorded as expenses in the Income Statement in equal instalments across the duration of the contract.

Financial expenses

Financial expenses 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 financial expenses are recognised in the period in which they occur. Financial expenses consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

l) Intangible assets

Intangible assets acquired separately are initially recognised at cost, while the cost of intangible assets acquired in a business combination is recognised at 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 intangible assets, excluding development costs, are not capitalised and the related expenditure is reflected in the Income Statement in the period in which the expenditure is incurred.
The useful lives of intangible assets are assessed as either definite or indefinite.
Intangible assets with definite useful life 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 definite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or in 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 expenses on intangible assets with definite useful life are recognised in the Income Statement in the expense category 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 definite 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 revenues and the book value of the asset and are recognised in the Income Statement of the financial year during which the asset is derecognised.

Patents and licences

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

Service Concession Arrangements

IFRIC 12 states that in the case that the concession agreement contains certain characteristics, the infrastructures providing the supply of public services under concession are recorded as intangible assets and/or financial assets, depending on whether the concessionaire is entitled to a consideration from the client for the service provided and/or has the right to receive it from the granting public body.
Concession arrangements in place with granting organisations relating to the distribution of the gas of the Group, as provided by the interpretation of IFRIC 12, are recorded by applying the “intangible assets model”, since it is deemed that the underlying concession arrangements do not guarantee the existence of the unconditional right

of the concessionaire to receive money or other financial assets. 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.
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.

Amortisation is calculated based on what is established in the respective agreements/concessions, taking into account the provisions of current legislation on natural gas distribution concessions, and in particular: i) in equal instalments for the economic and technical life of the assets granted and the duration of the service concession arrangements, whichever is the lower, if at the expiry no compensation value (Redemption Value) is recognised to the outgoing operator; and ii) on the basis of the economic and technical life of the individual assets, if at the expiry of the service concession arrangements the assets will not be freely transferable.

Gains or losses arising from the alienation of an intangible asset are determined as the difference between the asset's disposal value and the book value of the asset and are recognised in the Income Statement at the time the risks and rewards of ownership are transferred to the buyer.

m) Financial assets and liabilities

Financial assets include equity investments (excluding investments in subsidiaries, joint ventures and associates) held for trading (i.e. trading investments) 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 upon the emergence of the contractual rights and obligations envisaged by the instrument.

Initial recognition and valuation of financial assets

At initial recognition, financial assets are classified, depending on the specific case, as financial assets at fair value recorded in the Income Statements, loans and receivables, held to maturity investments, financial assets available for sale or hedging derivatives, in the case that the hedge is effective. All financial assets are initially recorded at fair value plus any transaction costs directly attributable to the purchase, except in the case of financial assets with fair value recorded on the Income Statement.

Purchases or sales of financial assets which require delivery within a time frame generally established by market regulations or agreements (standardised sale or regular way trade) are recorded at the transaction date upon which the Group undertakes to purchase or sell the asset.

Derecognition of financial assets

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 and (i) has transferred substantially all the risks and rewards of the asset, or (ii) 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 and has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised in the financial statements to the extent of the Group's continuing involvement in the asset itself. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at 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.

Initial recognition and valuation of financial liabilities

Initially, all financial assets and liabilities are recognised at fair value plus, in the case of assets and liabilities other than those measured at fair value in the Income Statement, any ancillary costs (acquisition / issue costs).

Derecognition of financial liabilities
A financial asset is derecognised from the financial statement when the obligation relating to the asset is discharged, is cancelled or expires.
In the case that 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, with the difference in the respective book values recognised in the Income Statement.

Subsequent valuations of non-derivative financial assets and liabilities

Non-derivative financial assets and liabilities include:
- loans and receivables (L&R - "Loans and Receivables");
- held to maturity investments (HTM - Held to Maturity);
- financial liabilities measured at amortised cost.

Other financial assets and liabilities, other than derivatives and investments, with fixed or determinable payments, are measured at amortised cost. Any transaction costs incurred during the acquisition/sale phase are reported directly as adjustments to the nominal value of the asset/liability (for example, issue premiums and discounts, costs for the acquisition of loans, etc.), while the financial revenues/expenses are recalculated on the basis of the effective interest rate method. Financial assets are valued regularly in order to certify the existence of objective evidence that they have sustained a reduction in value. In particular, the solvency of the creditors as well as the credit risk characteristics indicative of the payment ability of individual debtors is taken into account in the credit assessment. Any write-offs are recorded as expenses in the Income Statement. 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.

n) Derivative instruments
Derivative instruments and embedded derivatives are measured at fair value, with any variations recorded on the Income Statement, in the case that the derivatives as not classed as hedging derivatives. A derivative is classed 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. In the case of hedging derivatives used to hedge the risk of variations in the fair value of the items being hedged (fair value hedge), the derivatives are recognised at fair value with the effects charged to the Income Statement; accordingly, the hedged instruments are adjusted to reflect the variations in fair value associated with the hedged risk. In the case that the derivatives hedge the risk of cash flow variations (cash flow hedge), the effective portion of variations in fair value of the derivatives is directly recognised in Shareholders' Equity under "Cash flow hedge reserves", while the ineffective portion is recognised in the Income Statement. Amounts that have been recognised directly in equity are reflected in the Comprehensive Income Statement.
Fair value variations of derivatives which are not classed as hedging derivatives are recognised in the Income Statement. In particular, variations in the fair value of non-hedging derivatives on interest rates and currencies are recognised in the Income Statement under "Financial Income/Expenses"; on the contrary, variations in the fair value of non-commodity hedging derivative instruments are recognised in the Income Statement under "Financial income/(expenses) 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 derivative instruments, 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 recognised directly in Shareholders' Equity in a specific equity reserve defined as "Cash flow hedge reserve", while the ineffective portion is recognised in the income statement. Amounts that have been recognised 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 requirements required by IAS 39 to qualify as hedges. The related fair value changes are recognised in the Income Statement.
- Commodity forward contracts for purchase or sale that provide physical gas delivery in subsequent financial years. Their assessment depends on the classification of the instrument in one of the following categories:
    - Forward contracts relating to gas trading activities which fall within the scope of application of IAS 39 as "contracts entered into for trading, speculative and hedging purposes". These financial instruments are recognised at fair value at the balance sheet date, with the effects recognised on the Income Statement under item "Financial income (expenses) from commodity risk management";
    - Forward contracts related to the sale of gas of the subsidiary which do not fall within the scope of application of IAS 39 as they are concluded for the purposes of optimising the procurement and sales portfolio (so-called "own use"). Such financial instruments are recognised at the time of physical delivery of the underlying commodity. Please see the Note on "Revenues from trading activities" for further information.

o) Inventories

Inventories are valued the lower of purchase or manufacture cost, including ancillary costs, and the net realisable value inferable from market trends. The adopted cost configuration is the weighted average cost. Any slow-moving or obsolete stocks are devalued in relation to their possibility of use or realisation.
Inventories of stored gas held for trading activities are measured at fair value, which is measured in accordance with the official prices on the reference market at the measurement date.

p) Environmental securities: White certificates

The Group holds Energy Efficiency Certificates (EEC) for own-use (Industrial Portfolio) and does not hold shares/certificates for trading (Trading Portfolio).
The EECs held for "own-use" (Industrial Portfolio) purchased to meet demand (determined based on the obligations matured at the end of each financial year) are recognised as current activities at fair value, based on the expected realisation value.
In addition, a "Risk Fund" provision is accrued valuing the EECs still to be purchased (to fulfil the obligation of the year) to the difference between the value of the contribution and the market value of the EECs. The cost of the provision is recognised within the "Other operating expenses".

In accordance with the IFRS, the accounting approach used is the "Net liabilities approach", on the basis of which the purchase costs of the EECs are recognised in "Other operating expenses" at the time of purchase, while the contribution (ARERA/GSE) relating to annulledEECs is recognised in "Other income" at the time of collection. The EECs held at the end of the financial year are recognised on the basis of the value of the contribution recognised by ARERA/GSE for the current year, recognised in "Other Income" and "Receivables from CCSE".

q) Write-offs of non-current assets

At the end of each reporting period, the Group assesses whether impairment of non-current assets exists. If any indicator exists, or when annual impairment evaluation is required, the Group estimates the recoverable amount. The recoverable amount is the greater of fair value of the asset or cash-generating unit, net of sales costs, and its value in use.. The recoverable amount is determined for each 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 book value 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 these transactions can not be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and projected 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 Income Statement 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.

Goodwill is tested for impairment at least once a year (at December 31), and more frequently in the case that circumstances indicate that the entry 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 book value, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future financial years.

r) Cash and cash equivalents

Cash and cash equivalents include cash on hand, sight deposits and short-term deposits with a maturity of three months or less, which are not subject to significant risks 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.

s) 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 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 risk fund provision to be reimbursed (such as in the case of risks covered by an insurance contract), the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the Income Statement net of any reimbursement.
If the effect of the time value of money is significant, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the specific risks relating to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

t) Post-employment benefits

Employee Leaving Indemnity provision (TFR) and retirement provisions 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 labour cost, while the figurative financial charge that the firm would support if it asked the market for an amount equal to the TFR is attributed to net financial income (charges). Actuarial gains and losses reflecting the effects of changes in the actuarial assumptions used are recognised in the Comprehensive Income Statement taking into account the remaining average working life of employees.
According to the Financial Law of December 27, 2006 n. 296, for the purposes of IAS 19, only the liability for employee leaving indemnity remained at the holding is valuated, since the maturing instalments 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 recognised in the maturity term right.
The liability relating to defined benefit plans, net of any assets in favour of the plan, is determined by independent actuaries based on actuarial assumptions and is recognised on an accrual basis consistent with the work required to obtain the benefits.

2.5 Changes in accounting policies and disclosures

2.5.1 Accounting standards, amendments and interpretations applied from 01 January 2017

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses –

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 opened retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for financial years beginning on or after January 1, 2017. The application of this principle had no significant effects on the Group and its Consolidated Financial Statements.

Amendments to IAS 7 Disclosure Initiative

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 financial years beginning on January 1, 2017.
In Note 10.4.3 "Long-term financial liabilities", the Group provided information regarding the current financial year and the comparable periods of 2016 and 2015.

2.5.2 Accounting standards, amendments and interpretations applied from January 1, 2016

Amendments to IFRS 11 Joint-Venture Agreements: Acquisition of an interest

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 financial years beginning on or after January 1, 2016, with early application permitted. These amendments did not have any impact on financial statements of the Group as at December 31, 2016 as there has been no interest acquired in a joint operation during the financial year.

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;
- The fact that specific items in the Statement(s) of profit or loss, the Statement of 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 in the Income Statement. 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 financial years beginning on or after January 1, 2016, with early application permitted. These amendments did not have any impact on the financial statements of the Group.

Amendments to IAS 16 and IAS 38: Clarifications on 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 financial years beginning on or after January 1, 2016, with early application permitted. The amendments did 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. These amendments did not have any impact on the financial statements of the Group.

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 combinations

- 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 Note 12 of IFRS 8, including a brief description of the aggregate operating segments and economic characteristics (e.g. sales, gross margin) used to determine whether the segment are “similar”;
- It is necessary to present the reconciliation of segment activities with total assets only if reconciliation is presented at the highest decision-making level, as required for segment liabilities.

IAS 16 Property, plant and equipment and 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 amortisation 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: Information

(i) Service 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 service 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 bond is denominated, rather than the country where the bond 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.

Amendments to IFRS 10, IFRS 12 and IAS 28 - investment entities: application of the consolidation exemption

The amendments consider the problems arising from the application of the exemption relating to investment companies envisaged by 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 financial years beginning on or after January 1, 2016. Early application is permitted. The amendments did not have any impact on the Group.

2.5.3 Accounting standards, amendments and interpretations issued by the European Union but not yet effective and not subject to early adoption by the Group

The standards and interpretations that are issued, but not yet effective, as at the date of the Consolidated Financial Statements of the Group 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 when they become effective. The Group has not early adopted any standards, interpretations or improvements issued but not yet effective.

IFRS 9 Financial Instruments

In July 2014, 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 financial years beginning on or after January 1, 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 and will not present comparative information. In 2017, the Group launched an analysis to assess the impacts of all aspects pursuant to IFRS 9.

This analysis was based on currently available information and may be subject to change in the case that additional information becomes available to the Group in 2018, when the Group will formally adopt IFRS 9.

a) Classification and valuation

The Group does not envisage significant impacts to its Shareholders' Equity as a result of the application of the classification and valuation principles provided by IFRS 9. All financial assets currently recognised at fair value will continue to be measured at fair value.

b) Write-off

IFRS 9 requires the Group to record expected credit write-offs on all portfolio obligations, loans and trade receivables, with reference to either a 12-month period or the entire contractual term of the instrument (e.g. lifetime expected loss). The Group will apply the simplified approach and will record all expected write-offs on trade receivables based on their residual contractual duration.
With reference to the application of the Expected Credit Losses model, ongoing activities include the audit of current matrix provisions such to accurately represent the credit risk of the counterparty, and the amendment and optimisation of operational processes such to ensure the availability of information in order to implement the valuation models and produce the financial reports.

***c)* Hedge accounting**

With regard to hedge accounting, the Group deems that all current hedge relationships currently defined as effective will continue to qualify as hedge accounting relationships in accordance with IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014 and amended in April 2016, introduces a new five-phase model to be applied to revenues deriving from contracts with clients. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer.
The new standard will supersede all existing requirements contained in the IFRS on the subject of revenue recognition. The standard is effective for financial years beginning on or after January 1, 2018 according to the full retrospective or modified retrospective approach. Early application is permitted.
The standard envisages obligatory retrospective application; the transaction may be made using two methods: retrospectively for each previous financial year presented in line with IAS 8 (full retrospective approach) or retrospectively taking into account the cumulative effect from the initial application date (modified retrospective

approach). In the case of the second approach, IFRS 15 is applied retrospectively exclusively to contracts which are not concluded at the date of the initial application (January 1, 2018). The ESTRA Group is currently assessing which of the two retrospective approaches to adopt.
In 2016 the Group carried out a preliminary assessment of the effects of IFRS 15; this process was continued in 2017 with a more detailed analysis. The analysis is nearing completion at the publication date of the Financial Statements as at December 31, 2017.
The ESTRA Group operates predominantly in the segment of gas and electricity sales and gas distribution. The analysis of the impacts of the application of IFRS 15 now focuses on these two segments.
According to the analysis, which is currently ongoing, the areas described below will potentially be affected by the new provisions of the standard.
For the segment of gas and electricity sales, which generates the majority of the Group's revenue:
(i) gross or net representation of certain types of expenses strictly associated with the supply of goods or services; (ii) contracts characterised by multiple contractual obligations; (iii) contracts that provide for variable fees; (iv) principal vs agent matters.
For the segment of gas distribution:
(i) gross or net representation of certain types of revenues relating to distribution tariff components; (ii) representation of revenues for connection contributions.

At the current state of the analysis, it is believed that the issues reported do not produce significant impacts on the Shareholders' Equity of the Group at the date of first application, being essentially related to the presentation of financial items. Assessments are currently ongoing to evaluate revenues deriving from other segments of Group activity; it is not believed that such revenues will impact the Shareholders' Equity of the Group. These assessments are subject to review in the light of the effective industry practices of reference.

This analysis was based on currently available information and may be subject to change in the case that additional information becomes available to the Group in 2018, when the Group will formally adopt IFRS 15.

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, photocopiers, etc.) and short-term leases (e.g. 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, except that 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 leases and financial leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 will enter into effect for financial years beginning on January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group plans to assess the potential effect of IFRS 16 on its Consolidated Financial Statements.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payments

The IASB issued amendments to IFRS 2 Share-Based Payments 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 transaction to equity settled transaction.
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 financial years beginning on or after January 1, 2018, with early application permitted.

The amendments are not expected to have any impacts on the consolidated financial statements of the Group.

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 Consolidated Financial Statements of the Group, in line with IFRS-EU, 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. The estimates and judgements made by Management are based on prior experience and other factors which may be reasonably considered: such judgements are adopted when the book value of assets and liabilities is not easily inferable from other sources. As such, actual results may differ from the estimates. The estimates and assumptions are periodically reviewed and the effects of each change are reflected in the Income Statement, in the case that the revision only affects that financial year. In the case that the change affects both current and future financial years, the change is recognised in the financial year during which the revision was made and in any relative future reporting periods.
In order to provide a clear understanding of the financial statement, the principle accounting items where estimates have been applied and cases significantly affected by judgements taken by the management are given in Note 3.2, to follow, highlighting the main assumptions used in the valuation process in compliance with the aforementioned international accounting standards. The criticality inherent in these assessments is determined by the use of assumptions and/or professional judgements relating to issues that are by nature uncertain.
Modifications to the conditions underlying the assumptions and judgements may have a significant impact on future results.
Other disclosures relating to the Group's exposure to risks and uncertainties are provide in the following paragraphs:

- Capital management;
- Objectives and criteria for managing financial risk;
- Disclosure on the sensitivity analyses.

3.1 Judgements

In the process of applying the Group's accounting policies, management have made decisions based on the following judgements (excluding estimates), with a significant impact on the amounts recognised in the financial statements.

(i) Assets Held for Sale and Discontinued Operations

The Group has designated as Assets Held for Sale the Polish company Useneko, operating in the distribution of gas in Poland, and until 2016 also its direct subsidiary Serenia S.r.l. in liquidation, incorporated into Estra S.p.A. during the financial year 2017.

The Board of Directors considers that the subsidiary has the characteristics to be classified as Assets Held for Sale for the following reasons:

- The subsidiary Useneko represents a separate geographical area, in this case the only one outside Italy;
- the book value of the investment 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 usual and customary for the sale of such assets. The sale is deemed to be highly probable;
- the Management is committed to the divestiture programme and negotiations with the potential buyer are at an advanced stage;
- 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 arising from network maintenance activities and the contractual regulation of certain rights of way, undertaken as preliminary activities prior to the sale of the company;
- the Group has taken steps to resolve these criticalities in order to implement the company's divestiture programme.

As a result of this designation, the subsidiary has been presented in accordance with IFRS 5: the assets and liabilities of Useneko have been consolidated on a single item under "Liabilities Held for Sale" and the effect of the valuation of the same at the estimated realisable value is recognised under a single item as net losses from discontinued operations.

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

The Group has joint control with the partner Multiservizi S.r.l. of the company EDMA Reti Gas S.r.l. as at December 31, 2017; individually, the Group holds 45% of the share capital of the subsidiary. 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 Income Statement before the operating result.

(iii) Identification of Cash Generating Units (CGU)

In application of the provisions of IAS 36 "Impairment of assets", the goodwill recorded in the Financial Statements in virtue of business combination transactions has been allocated to individual CGUs or groups of CGUs, since such units are expected to benefit from the business combination. A CGU represents the smallest group of assets that generates largely independent cash flows.

In the process of identifying the CGUs, Management considered the specific nature of the asset and the business to which it belongs (region, business area, relative legislation, etc.), verifying that the cash flows deriving from a group of assets are strictly independent and broadly autonomous from those deriving from other assets (or groups of assets).

The assets included in each CGU are also identified on the basis of the methods used by management to manage and monitor the assets as per the adopted business model. In particular, the CGUs identified are:

* CGU Gas and Electricity Sales
* CGU Gas Distribution (Centria)
* CGU Gas Distribution (Gergas)
* CGU Trading of natural gas

Furthermore, additional CGUs were identified which overlap with the individual companies listed in IFRS 8 as "Other SBUs", as specified in Note 4 "Segment Information".

3.2 Significant accounting estimates

The application of generally accepted accounting standards for the preparation of the financial statements requires the Company Management to make accounting estimates based on complex and/or subjective judgements, previous experiences and reasonable and realistic hypotheses based on the information available at the time the estimate was made. The use of such accounting estimates impacts the entry value of the asset and liability, the disclosure of potential assets and liabilities as at the date of the financial statements and the revenues and expenses in the reference period. Actual results may differ from these estimates due to the uncertainties which characterise the hypotheses and the conditions underlying the estimates themselves. The main accounting estimates used to prepare the financial statements are provided below, considered critical as they involve regular use of subjective judgements, assumptions and estimates on matters that are by nature uncertain. Any changes to the conditions underlying such judgements, assumptions and estimates may significantly impact future results.

(i) Impairment of non-financial assets

Impairments of non-financial assets are recognised when events or changes in circumstances indicate that the entry value recognised on the financial statement is not recoverable. Events that may determine the impairment of an asset include changes to the business plan, legislative changes, high client turnover, variations in market prices and the reduced use of the plants. The decision to proceed with an impairment and the calculation of the same depend on the valuations of the Company Management of complex and highly uncertain factors such as future price trends, the impact of inflation and client attrition rate (churn rate).

Impairment exists when the book value of an asset or cash generating unit exceeds its recoverable amount, which is its fair value less costs of disposal or its value in use, whichever is the higher. 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. In its determination of the fair value, Company Management may also rely upon appraisals by third parties, in particular as regards the industrial value of assets under concession (VIR).

The value in use calculation is based on a DCF model. The cash flows are derived from approved provisional plans deemed to represent accurate estimates 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 under evaluation. The recoverable amount is sensitive to the discount rate used for the cash flow discounting model as well as the expected future cash flows and the growth rate used for extrapolation purposes. Key assumptions used to determine the recoverable value for the various cash generating units, including a sensitivity analysis, are described in detail in the Notes Impairment test on goodwill according to IAS 36 (10.1.4. Impairment test on goodwill according to IAS 36) and Impairment testing on tangible assets according to IAS 36 (10.1.2 Impairment testing on tangible assets according to IAS 36).

(ii) Business combinations

Business combination transactions involve the allocation of the difference between the purchase cost and net book value to the assets and liabilities of the acquired business. For most assets and liabilities, the different is allocated by recognising the assets and liabilities at fair value. The non-allocated portion, if positive, is entered as goodwill; if negative, it is recorded within the Income Statement. The allocation of the price paid on a provisional basis is subject to revision/update within 12 months following the acquisition, in order to take into account new information regarding the facts and circumstances at the date of acquisition. In the allocation process, the Group uses available data and, for the most significant business combinations, external evaluations; based on available information, the allocation process also requires the use of complex judgements by Company Management.

(iii) Assets estimated useful life

Amortisation/depreciation is calculated on the basis of the estimated useful life of the asset, the remaining duration of the contract and the churn rate. The useful life is determined by management, with the assistance of expert technical opinions issued at time the asset is recorded on the financial statement; evaluations regarding useful life are based on previous experience, market conditions and predicted future events that may impact the useful life of the asset, including advancements in technology. The Group periodically assesses technological advancements, industry changes, churn rate, disassembly and closure costs and the recoverable value in order to update the evaluation of the remaining useful life. These periodic updates may result in a variation in the amortisation period and, therefore, the amortisation charges applied to future financial years.

In relation to the duration of natural gas distribution concessions, Legislative Decree no. 164/00 (the "Letta Decree") established that all assignments must be made available for tender by the end of the so-called "transitional period", and that the new duration of the concession may not exceed twelve years. Upon the expiry of the concessions entrusted to the outgoing operator, compensation is paid according to the criteria of the industrial estimate for the sale of its distribution networks. As regards the estimates made by the directors in order to determine the depreciation/amortisation criteria, the net book value of the assets related to the expired concession may not exceed the residual industrial value.

(iv) 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 the Employee Leaving Indemnity provision Note.

(v) 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 methods 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.

(vi) Provision for risks and allowance for bad debt

Provisions for risks are made on the basis of the expectations of timely events which on the basis of available information and the support of legal advisers and consultants assisting the Group, are deemed reasonably certain.
The recoverability of the carrying value of receivables related to the sale of electricity and gas, as well as the need to recognise a write-down of the same, are the result of an evaluation process carried out by Company Management that requires the use of complex and/or subjective judgements. The calculation is based on specific analytical evaluations, supported by evaluations of historical analyses which regarded impairments of the values owned by clients, in relation to the age of the receivable, the credit worthiness of the counterparty where available, the average collection times, the credit status (active, discontinued) and the historical performance of each class

(vii) Revenue recognition

Revenues from the sale of electricity and gas to business, retail and domestic clients are recognised and recorded at the time of delivery, measured on the basis of pre-established meter reading schedules, and include the estimated revenue for the supply of gas and electricity supplied to end clients and not yet invoiced as at December 31. This estimate represents the difference between the total usage (actual or estimated usage based on previous use of the client and other factors that may influence usage such as weather conditions) invoiced at the end of the financial year and the total quantity allocated into the distribution network; the estimate is recorded under specific accruals for invoices yet to be issued. The measurement of the volumes distributed and allocated is communicated by national and local distributors and carriers and is subject to potential adjustments up to the fifth consecutive year, as required by the relevant legislation. The amount of gas and electricity entered into the networks and not yet invoiced, obtained as described above, is valued on the basis of client type, the respective amounts already invoiced during the financial year and the relative average tariff in force during the financial year.
The allocation of revenues for invoices to be issued for gas and electricity sales to end customers is therefore the result of a complex estimate based on the amounts distributed and allocated and is subject to adjustment and influenced by the professional judgement of the Company Management.

4. Segment information

For management purposes, the Group is composed as a Strategic Business Unit ("SBU") based on its products and services provided, classified as operating segment pursuant to IFRS 8, as follows:

(i) Natural gas distribution

The activities of the SBU include the technical and operational management of the natural gas distribution networks.

(ii) Sales of natural gas and electricity

The business of the SBU is represented by the sale of methane gas and electricity on the wholesale and retail markets. Support for commercial areas is ensured by gas and electricity supply, dispatching, storage and logistics and portfolio optimisation activities.

(iii) Natural gas trading

The business of the SBU is represented by natural gas trading on national and foreign markets.

(iv) Corporate and others

The "Corporate and others" SBU includes:

- the technical and operational management of telecommunications networks and their commercialisation (activities also include video surveillance, data transmission, telephony, and Internet access services);
- the provision and use of energy production plants from renewable sources with particular reference to photovoltaic, wind and biomass sources;
- the management of heating facilities owned by third parties (heat management services) and facility management activities;
- the commercialisation of liquid propane gas;
- the activities carried out by the holding entity in terms of management and logistical assistance to other Group companies.

The other segment have economic characteristics, organisational criteria and different performances but do not exceed the quantitative thresholds that would require separate disclosure.

With respect to the information published in the financial statements as at December 31, 2016 and the relative comparative data of 2015, the allocation of services carried out by the holding entity, which were previously attributed proportionally to various operating segment, has been modified and is now entered under the "Corporate and others".

In accordance with paragraphs 29 and 30 of IFRS 8, the comparative data has been retrospectively amended to reflect this change.

The Group operates in Italy, with the exception of the discontinued operation of subsidiary Useneko located in Poland. For the impact of discontinued operations, refer to the specific paragraph on discontinued operations found in this document.

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

The comparative analysis of the financial data by operating segment for the financial years 2017, 2016 and 2015 is given below.

Operating results by segment

Operating Segments	Natural gas distribution			Gas and electricity sales			Gas trading			Corporate and Others			Eliminations			Total		
	For the years ended as at December 31,			For the years ended as at December 31,			For the years ended as at December 31,			For the years ended as at December 31,			For the years ended as at December 31,			For the years ended as at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Total revenues	96,841	91,746	92,234	659,607	668,716	552,406	287,863	310,011	261,716	48,445	48,611	48,945	(76,251)	(74,690)	(88,386)	1,016,505	1,044,395	921,826
External costs	(59,407)	(54,937)	(56,468)	(591,705)	(602,376)	(513,649)	(287,041)	(307,777)	(260,847)	(33,099)	(32,077)	(31,972)	76,251	71,734	85,845	(895,001)	(925,435)	(780,460)
Personnel costs	(10,770)	(11,534)	(12,405)	(9,580)	(9,933)	(7,551)	(187)	(170)	(68)	(13,682)	(13,638)	(13,745)	-	2,955	2,541	(34,218)	(32,320)	(31,227)
Financial income (expenses) from commodity risk management	-	-	-	-	1,063	62	150	(1,601)	(27)	-	-	-	-	-	-	150	(538)	35
Investments in an associate and a joint venture	-	-	-	-	172	-	-	-	-	225	298	1,073	-	-	-	225	470	1,073
Gross operating margin (EBITDA)	**26,664**	**25,275**	**23,361**	**58,322**	**57,642**	**31,268**	**785**	**463**	**774**	**1,889**	**3,194**	**4,302**	**-**	**-**	**-**	**87,661**	**86,572**	**111,245**
Amortisation, depreciation and impairment	(9,696)	(9,497)	(9,966)	(14,118)	(13,960)	(3,057)	-	-	-	(9,371)	(9,332)	(15,235)	-	-	-	(33,185)	(32,789)	(28,256)
Provisions	(129)	(616)	(205)	(9,463)	(13,333)	(8,483)	-	-	-	(186)	(2,524)	(4,999)	-	-	-	(9,779)	(16,473)	(13,687)
Operating results (EBIT)	**16,839**	**15,162**	**13,190**	**34,741**	**30,349**	**19,728**	**785**	**463**	**774**	**(7,668)**	**(8,662)**	**(15,932)**	**-**	**-**	**-**	**44,697**	**37,310**	**69,300**

Asset values by segment

Operating Segments	Natural gas distribution			Gas and electricity sales			Gas trading			Corporate and Others			Eliminations			Total		
Assets	As at December 31			As at December 31			As at December 31			As at December 31			As at December 31			As at December 31		
(values in thousands of Euro)	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Non-current assets	255,022	222,574	215,301	167,167	142,854	50,453	-	394	3,888	104,909	102,050	118,606	(11,713)	(4)	(210)	515,387	467,868	388,039
Current assets	40,906	40,433	40,683	274,776	286,701	261,424	34,255	36,546	35,380	96,284	97,183	74,908	(73,737)	(97,380)	(91,560)	372,484	363,483	320,836
Discontinued operations	-	-	-	-	-	-	-	-	-	2,350	2,164	3,691	-	-	-	2,350	2,164	3,691
Total assets	**295,928**	**263,006**	**255,985**	**441,943**	**429,556**	**311,877**	**34,255**	**36,940**	**39,268**	**203,543**	**201,397**	**197,205**	**(85,450)**	**(97,384)**	**(91,769)**	**890,220**	**833,515**	**712,566**

The values given above represent the division of current assets by SBU, excluding financial components since the financial management of the Group is managed at Group level.

Investments and business combinations by segment

Investments by operating segment	Natural gas distribution			Gas and electricity sales			Gas trading			Corporate and Others			Total		
(values in thousands of Euro)	For the years ended as at December 31,			For the years ended as at December 31,			For the years ended as at December 31,			For the years ended as at December 31,			For the years ended as at December 31,		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Investments in Intangible assets	12,515	13,012	10,101	5,801	10,813	10,078				2,225	3,915	5,037	20,541	27,740	25,216
Investments in Intangible assets derived from business combinations				19,943	85,523	18,547							19,943	85,523	18,547
Total investments (including business combinations) in Intangible Assets	**12,515**	**13,012**	**10,101**	**25,744**	**96,336**	**28,625**	**0**	**0**	**0**	**2,225**	**3,915**	**5,037**	**40,484**	**113,263**	**43,763**
Investments in Tangible assets	178	128		750	735	652				4,125	3,945	2,487	5,053	4,808	3,139
Investments in Tangible assets derived from business combinations				225	59	5				35,418	-	-	35,643	59	5
Total investments (including business combinations) in Tangible Assets	**178**	**128**	**0**	**975**	**794**	**657**	**0**	**0**	**0**	**39,543**	**3,945**	**2,487**	**40,696**	**4,867**	**3,144**
Total	**12,693**	**13,140**	**10,101**	**26,719**	**97,130**	**29,282**	**0**	**0**	**0**	**41,768**	**7,860**	**7,524**	**81,180**	**118,130**	**46,907**

Net Income reconciliation

(values in thousands of Euro)	For the years ended as at December 31		
	2017	2016	2015
Segment results	**44,697**	**37,310**	**69,300**
Financial income	3,335	4,447	4,154
Financial expenses	(17,548)	(13,465)	(12,937)
Gains and losses on foreign exchange	-	(3)	9
Portion of income (expenses) for valuation of financial long-term investments using the equity method	280	(348)	877
FINANCIAL INCOME AND CHARGES	**(13,933)**	**(9,369)**	**(7,897)**
INCOME BEFORE TAXES	**30,764**	**27,941**	**61,403**
Income taxes for the year	14,321	10,892	24,704
NET INCOME FROM CONTINUING OPERATIONS	**16,433**	**17,049**	**36,699**
Net income of disposal activities/discontinued operations	(377)	(2,000)	(1,057)
NET INCOME FOR THE YEAR	**16,066**	**15,049**	**35,642**

5. Capital management

For the purpose of the Group's capital management, capital includes issued share capital, share premium and all other equity reserves attributable to the equity holders of the parent and non-controlling interests. The primary objective of the Group's capital management is to maximise 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, represented by net financial indebtedness divided by consolidated shareholders' equity. The policy of the Group is to keep the gearing ratio under 1. The Group includes in its recognition of 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.

	(values in thousands of Euro)	**Financial year ending at December 31**		
		2017	**2016**	**2015**
	Liquidity (1)	229,774	299,236	281,404
	Current financial receivable (2)	12,259	28,648	18,168
	Current financial debt (3)	90,717	198,820	173,063
	Net current financial debt	**(151,316)**	**(129,064)**	**(126,509)**
	Non-current financial Indebtedness (4)	368,240	334,807	294,589
D	**Net financial Indebtedness**	**216,924**	**205,743**	**168,080**
E	**Shareholders' Equity**	**331,921**	**320,521**	**270,299**
D/E	***Leverage***	**0.65**	**0.64**	**0.62**

(1) Equal to Cash and cash equivalents; (2) Equal to Other current financial assets (3) Equal to the total of items Current portion of long term financial liabilities, Short-term financial liabilities and Other current financial liabilities; (4) Equal to Non-current portion of long-term financial liabilities

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 December 31, 2017.

Refer to the Liquidity Risk paragraph for more detail.

6. Group Information

Scope of consolidation

The following table shows the scope of consolidation as at December 31, 2017, compared with the scope of consolidation as at December 31, 2016 and December 31, 2015:

			As at December 31, 2017				As at December 31, 2016				As at December 31, 2015			
Business name	**Registered office**	**Core business activity**	**Share attributable to the Group**	**Share of direct control**	**Share of indirect control**	**Notes**	**Share attributable to the Group**	**Share of direct control**	**Share of indirect control**	**Notes**	**Share attributable to the Group**	**Share of direct control**	**Share of indirect control**	**Notes**
Parent company														
E.S.TR.A. S.p.A.	Prato (PO)	Holding												
Fully consolidated subsidiaries														
ESTRACOM S.p.A.	Prato (PO)	Telecommunications	**79.32%**	79.32%			**70.24%**	70.24%			**70.24%**	70.24%		
Estra Clima S.r.l.	Prato (PO)	Heat management services	**100.00%**	100.00%			**100.00%**	100.00%			**80.00%**	80.00%		
E.S.TR.A. Energie S.r.l.	Siena (SI)	Natural gas sale	**100.00%**	100.00%			**79.54%**	54.32%	45.68%	(4)	**91.12%**	73.11%	26.89%	(8)
ETA3 S.p.A.	Arezzo (AR)	Holding	**100.00%**	100.00%			**66.99%**	66.99%			**66.99%**	66.99%		
ESTRA Elettricità S.p.A.	Prato (PO)	Electricity sales	**100.00%**		100.00%	(1)	**47.72%**		60.00%	(1)	**54.67%**		60.00%	(1)
Gergas S.p.A.	Grosseto (GR)	Gas distribution	**79.93%**	79.93%			**79.93%**	79.93%			**79.93%**	79.93%		
Centria S.r.l.	Arezzo (AR)	Gas distribution	**99.65%**	99.65%			**100.00%**	100.00%			**100.00 %**	100.00%		
SOLGENERA S.r.l.	Prato (PO)	Renewable energies	**100.00%**	100.00%			**100.00%**	100.00%			**100.00 %**	100.00%		
Gas Tronto S.r.l.	Spinetoli (AP)	Natural gas sale	**92.67%**		92.67%	(1)	**63.59%**		79.95%	(1)	**72.85%**		79.95%	(1)
Prometeo S.p.A.	Osimo (AN)	Natural gas sale	**59.59%**		59.59%	(1)	**47.40%**		59.59%	(1)				
Piceno Gas S.r.l.	Ascoli Piceno (AP)	Natural gas sale	**100.00%**		100.00%	(1)								
Cavriglia SPV S.p.A.	Prato (PO)	Renewable energies	**100.00%**	100.00%										
Tegolaia SPV S.p.A.	Fano (PU)	Renewable energies	**100.00%**	100.00%										
EDMA S.r.l.	Ancona (AN)	Holding	**100.00%**	100.00%										
TuAreti S.r.l.	Arezzo (AR)	Gas distribution	**100.00%**		100.00%	(2)								
ANDALI ENERGIA S.r.l.	Pizzo Calabro (VV)	Renewable energies					**100.00%**		100.00%	(5)	**100.00 %**		100.00%	(5)
VEA Energia Ambiente S.r.l.	Massarosa (LU)	Natural gas sale					**79.54%**		100.00%	(1)	**91.12%**		100.00%	(1)
Marche Energia S.r.l.	Siena (SI)	Natural gas sale					**47.40%**		100.00%	(6)				
Biogenera S.r.l.	Prato (PO)	Renewable energies					**65.00%**	55.00%	10.00%	(7)	**63.00%**	55.00%	10.00%	(7)
EXO Energy Trading S.r.l.	Siena (SI)	Gas trading					**47.72%**		60.00%	(1)	**54.67%**		60.00%	(1)
Coopgas S.r.l.	Concordia sulla Secchia (MO)	Natural gas sale					**100.00%**	100.00%						
Estra Logistica S.r.l.	Prato (PO)										**91.12%**		100.00%	(1)
SOLGENERA TRE S.r.l.	Floridia (SR)										**100.00 %**		100.00%	(5)
Flor Fotovoltaici S.r.l.	Floridia (SR)										**100.00 %**		100.00%	(5)
Companies under joint control valued using the equity method														
EDMA Reti Gas S.r.l.	Ancona (AN)	Gas distribution	**45.00%**	45.00%			**45.00%**		100.00%	(2)	**45.00%**		100.00%	(2)
Idrogenera S.r.l.	Prato (PO)	Renewable energies	**50.00%**	50.00%			**50.00%**	50.00%			**50.00%**	50.00%		
Nuova Sirio S.r.l.	Siena (SI)	Renewable energies	**50.00%**	50.00%			**50.00%**	50.00%						
EDMA S.r.l.	Ancona (AN)	Holding					**45.00%**	45.00%			**45.00%**	39.13%	0.0587	(9)
Prometeo S.p.A.	Osimo (AN)										**26.82%**		0.5959	(2)
Marche Energia S.r.l.	Siena (SI)										**26.82%**		1	(6)
Nova E S.r.l.	Siena (SI)										**50.00%**	50.00%		
Venticello S.r.l.	Siena (SI)										**50.00%**		1	(10)
Vaserie Energie S.r.l.	Siena (SI)										**34.50%**		0.69	(10)
Sinergia Green Tech S.p.A.	Siena (SI)										**40.00%**		0.8	(10)
Casole Energie S.r.l.	Florence (FI)										**15.00%**		30.00%	(10)
Discontinued operations														
USENEKO	(POLAND)	Gas distribution	**100.00%**	100.00%			**100.00%**	100.00%			**100.00 %**		100.00%	(11)
Sin.It. S.r.l.	Milan (MI)	Natural gas sale	**11.05%**	11.05%			**11.05%**	11.05%			**11.05%**	11.05%		
Serenia S.r.l.	Arezzo (AR)	Holding					**100.00%**	100.00%			**100.00 %**	100.00%		
Blugas S.r.l. in liquidation	Mantua										**35.72%**	35.72%		
Associated companies valued using the equity method														
Blugas Infrastrutture S.r.l.	Cremona	Gas storage	**31.17%**	31.17%			**31.17%**	31.17%			**31.17%**	31.17%		
SIG S.r.l.	Ancona (AN)	Gas distribution	**38.70%**		38.70%	(2)	**17.42%**		38.70%	(2)	**17.42%**		38.70%	(2)
A.E.S. Fano Distribuzione Gas S.r.l.	Fano (PU)	Gas distribution	**49.00%**		49.00%	(2)	**22.05%**		49.00%	(2)	**22.05%**		49.00%	(2)
Monte Urano S.r.l.	Rome (RM)	Natural gas sale	**29.20%**		49.00%	(3)	**29.20%**		49.00%	(6)				
Gas Marca S.r.l.	Civitanova Marche (MC)	Natural gas sale	**49.00%**		49.00%	(1)								

Business name	Registered office	Core business activity	As at December 31, 2017				As at December 31, 2016				As at December 31, 2015			
			Share attributable to the Group	Share of direct control	Share of indirect control	Notes	Share attributable to the Group	Share of direct control	Share of indirect control	Notes	Share attributable to the Group	Share of direct control	Share of indirect control	Notes
Sangro Servizi S.r.l.	Atessa (CH)	Natural gas sale	**49.00%**		49.00%	(1)								
Cavriglia SPV S.p.A.	Prato (PO)	Renewable energies					**44.44%**	44.44%			**44.44%**	44.44%		
Tegolaia SPV S.p.A.	Fano (PU)	Renewable energies					**49.00%**	49.00%			**49.00%**	49.00%		
Casole Energie S.r.l.	Florence (FI)	Renewable energies					**15.00%**		30.00%	(7)				
Roma Oil Company S.r.l.	Rome (RM)	Natural gas sale					**23.86%**		30.00%	(1)	**27.34%**		30.00%	(1)
Piceno Gas S.r.l.	Ascoli Piceno (AP)	Natural gas sale					**35.79%**		45.00%	(1)				
Montedil S.r.l.	Montefalcone (BN)										**32.25%**	32.25%		

Notes

(1) through Estra Energie Srl

(2) through EDMA S.r.l.

(3) through Prometeo S.p.A.

(4) 21.20% through Eta3 + 24.47% through EDMA

(5) through Solgenera S.r.l.

(6) through Prometeo S.p.A.

(7) through Estra Clima S.r.l.

(8) through Eta3

(9) through Centria S.r.l.

(10) through Nova E S.r.l.

(11) through Serenia S.r.l.

The main changes to the **scope of consolidation as at December 31, 2017** compared toDecember 31, 2016 are shown below:

➢ Subsidiaries

- Increase in the Group's percentage of control in Estracom S.p.A. from 70.24% as at December 31, 2016 to 79.32% as at December 31, 2017 following the acquisition of a 9.08% stake by the Parent Company;
- Entry into the scope of fully consolidated subsidiaries of EDMA S.r.l. and its subsidiary TuArete S.r.l. following the transfer and the increase in share capital of Estra of a 55% stake in EDMA by Multiservizi with the acquisition of full control of the company;
- Increase in the Group's percentage of control in ETA3 S.p.A. from 66.99% as at December 31, 2016 to 100.00% as at December 31, 2017 following the acquisition of the residual share of 33.01% held by minority shareholders by the Parent Company;
- Increase in the Group's percentage of control in Estra Energie S.r.l. from 79.54% as at December 31, 2016 to 100.00% as at December 31, 2017 following the aforementioned transfer and increase in share capital of Estra of a 55% stake in EDMA, shareholder of 24.47% of Estra Energie, and purchase of 33.01% of ETA3 S.p.A., shareholder of 21.20% of Estra Energie. As of December 31, 2017 Estra Energie is fully controlled by the Parent Company following the purchase of controlling shares in ETA3 S.p.A. and EDMA S.r.l. at the end of the financial year;
- Increase in the Group's percentage of control in Estra Elettricità from 47.72% as at December 31, 2016 to 100.00% as at December 31, 2017 following the purchase of the residual 40% stake held by non-controlling interests by Estra Energie, which already owned 60% of the share capital, and the aforementioned change in the percentage consolidation of the parent company Estra Energie;
- Entry into the scope of fully consolidated subsidiaries of 100% of Piceno Gas Vendita S.r.l., 45% of which was already owned by the Group as at December 31, 2016 following the purchase by Estra Energie of the residual share of 55%;
- Exit from the scope of fully consolidated subsidiaries of Exo Energy Trading S.r.l. following the acquisition of third-party shares, equal to 40%, by Estra Energie and the subsequent merger by incorporation into the latter;
- Exit from the scope of fully consolidated subsidiaries of Biogenera following the acquisition of third-party shares, equal to 35%, by Estra Clima and the subsequent merger by incorporation into the latter;
- Exit from the scope of fully consolidated subsidiaries of Vea S.r.l. and Coopgas S.p.A., fully controlled by Estra Energie as at December 31, 2016 following their merger by incorporation into the latter;

- Exit from the scope of fully consolidated subsidiaries of Marche Energia S.r.l., fully controlled by Prometeo as at December 31, 2016 following the merger by incorporation into the latter;
- Increase in the Group's percentage of control in Gastronto S.r.l. from 63.59% as at December 31, 2016 to 92.67% as at December 31, 2017 following the acquisition of an additional stake of 12.72% during the 2017 financial year by Estra Energie and the aforementioned change in percentage consolidation of the parent company Estra Energie;
- Change in the Group's percentage of control in Prometeo S.p.A. from 47.40% as at December 31, 2016 to 53.09% as at December 31, 2017 following the aforementioned change in percentage consolidation of the parent company Estra Energie and the sale to minority shareholders of 6.5% of the share capital;
- Entry into the scope of fully consolidated subsidiaries of Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A., with existing holdings of 44.44% and 49% respectively as at December 31, 2016 following the acquisition by the Parent Group of additional shares of share capital;
- Exit from the scope of fully consolidated subsidiaries of Andali Energie S.r.l. following the sale of 100% of shares by the Group.

➢ **Companies held for sale/disposal**

- Exit from the scope of consolidation of Serenia S.r.l. following its merger by incorporation into the Parent Company.

➢ **Associates**

- Entry into associates valued using the equity method of Sangro Servizi S.r.l. following the acquisition by Coopgas S.r.l. of 49% of the share capital in March 2017;

- Entry into associates valued using the equity method of Gas Marca S.r.l. following the acquisition by Estra Energie S.r.l. of 49% of the share capital in January 2017;

- Increase in the percentage ownership in SIG S.r.l. from 17.42% as at December 31, 2016 to 38.70% as at December 31, 2017 and in AES Fano Distribuzione Gas S.r.l. from 22.05% as at December 31, 2016 to 49% as at December 31, 2017 following the aforementioned increase in ownership of EDMA S.r.l. from 45% as at December 31, 2016 to 55% as at December 31, 2017;

- Increase in interest in Monte Urano S.r.l. from 23.22% as at December 31, 2016 to 26.01% as at December 31, 2017 following the aforementioned change in control of Prometeo S.p.A..

The main changes to the **scope of consolidation as at December 31, 2016** compared to December 31, 2015 are shown below:

➢ **Subsidiaries**

- Entry into the scope of consolidation of Prometeo S.p.A. and its wholly owned subsidiary Marche Energia S.r.l. (not operational), in which the Group holds a 47.40% stake following the acquisition of 59.59% of the share capital by the subsidiary Estra Energie S.r.l.;
- Entry in the scope of consolidation of Coopgas S.r.l, wholly owned by the Group following the acquisition by the Parent Company of 100% of the share capital;
- Reduction of the Group's percentage control in Estra Energie S.r.l. from 91.12% as at December 31, 2015 to 79.54% as at December 31, 2016 following the entry into the share capital of the subsidiary EDMA S.r.l. at 24.47%;
- Subsequently, the shareholdings of the Group in companies directly controlled by Estra Energie were affected thus: Estra Elettricità S.r.l. (from 54.67% as at December 31, 2015 to 47.72% as at December 31, 2016), Exo Energy Trading S.r.l. (from 54.67% as at December 31, 2015 to 47.72% as at December 31, 2016), Vea S.r.l. (from 91.12% as at December 31, 2015 to 79.54% as at December 31, 2016) and Gastronto S.r.l. (from 72.85% as at December 31, 2015 to 63.5% as at December 31, 2016);

- Exit from the Consolidated Financial Statements as at December 31, 2016 of Estra Logistica S.r.l., following the acquisition by Estra Energie S.r.l.. The operation does not impact the Consolidated Financial Statement;
- Exit from the Consolidated Financial Statements as at December 31, 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 do not impact the Consolidated Financial Statements;
- Exit from the Consolidated Financial Statements as at December 31, 2016 of Flor Fotovoltaici S.r.l., following the merger in Solgenera S.r.l., its owned holding for 100%. The operation does not impact the Consolidated Financial Statement;

➢ **Companies under joint control**

- The deconsolidation of Nova E S.r.l., following the cession of the investment for 50% owned by the Group;
- Entry in the Consolidated Financial Statements of Nuova Sirio S.r.l., owned 50% by the Holding, following the split of business unit 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 consolidated financial statements.

➢ **Companies held for sale/disposal**

- Exit from the scope of consolidation of Blugas S.r.l., 35.72% of which was owned by the Parent Company as at December 31, 2015 following the completion of the liquidation process. The completion of the liquidation procedure generated a gain of Euro 134 thousand, accounted in the Income Statement under the item "Portion of income (expenses) for valuation of financial investments using the equity method", following the collection of loans previously written off in view of the uncertainty about their recoverability.

➢ **Associates**

- Entry into scope of consolidation of Piceno Gas S.r.l., 45% of which is owned by Estra Energie;
- Entry into scope of consolidation of Monte Urano S.r.l., 49% of which is owned by Prometeo;
- The deconsolidation of Montedil S.r.l., following the sale of the 32.25% holding owned by the Group;
- The deconsolidation of Venticello S.r.l. following the transfer of holdings by Nova E. S.r.l. to Solgenera Tre S.r.l., the subsequent transfer of the latter to Estra Clima S.r.l and the merger by incorporation into Estra Clima S.r.l.;
- Reduction of the controlling interest of the Group in Roma Oil S.r.l. from 27.34% as at December 31, 2015 to 23.86% as at December 31, 2016 following the aforementioned change in the controlling interest of the Group in Estra Energie (shareholder of 30%).

As regards the accounting effects of the transactions related to associated companies, refer to Note 10.1.6 Investments.

7. Business combinations and disposals of assets, and acquisition and disposal of non-controlling interests

7.1 Year ended as at December 31, 2017

- **Share capital increase reserved to Multiservizi S.p.A.**

During 2014 financial year, the Estra Group began an important aggregation project with Multiservizi S.r.l of Ancona, resulting in the establishment of the company EDMA S.r.l. (hereinafter also EDMA), a new industrial player with consolidation and development objectives in terms of gas and electricity sales and gas distribution activities in the Adriatic region.
Following the corporate transactions completed in the 2016 financial year, the company was owned at 45% by Estra and 55% by Multiservizi, and owned:

- 24.47% of Estra Energie, principal company in the Estra Group operating in the gas sales' segment;
- 100% of EDMA Reti Gas S.r.l, 38.70% of SIG S.r.l. and 49% of Aes Fano S.r.l., a company operating in the gas distribution segment.

The aggregation project was further developed in the 2017 financial year with the completion of the following corporate transactions carried out in two distinct phases:

Phase 1:

a) the demerger of EDMA Reti Gas S.r.l., owned at 100% by EDMA, through the establishment of a new company, TuAreti Gas S.r.l., to which the business unit relative to the management of the gas distribution services in the Municipalities of Mosciano, Citerna, Reti and Magione was transferred, including the ownership of the networks and plants, personnel and all existing concessionary contracts. The demerger took place on August 7 and took effect from the same date;
b) the reduction in share capital of EDMA through the allocation with the shareholders Multiservizi and Estra beneficiary of 55% and 45% respectively of the total shareholding in EDMA Reti Gas S.r.l., following the aforementioned demerger. The allocation took place during the Extraordinary Shareholders' Meeting on August 7, 2017.

Phase 2:

c) The transfer to Estra by Multiservizi of its representative share of 55% of the share capital of EDMA, which upon completion of the aforementioned transactions held 24.47% of Estra Energie, 100% of TuArete S.r.l., 38.70% of SIG S.r.l. and 49% of Aes Fano S.r.l..

The transfer was completed on December 28, 2017 during the Estra Extraordinary Shareholders' Meeting, during which an increase in share capital, with the exclusion of option rights pursuant to Article 2441, paragraph 6 of the Italian Civil Code, was approved for a maximum of Euro 22,834 thousand, through the offer of 22,834 thousand newly issued shares with a nominal value of Euro 1.00 each, with a total share premium of Euro 19,646 thousand, for a total of Euro 42,480 thousand, reserved to Multiservizi S.p.A..
The 22,834 thousand newly issued shares were subscribed by Multiservizi by transfer in kind of the following assets:

i) full ownership of a representative share of 55% of the share capital of EDMA;
ii) full ownership of a real estate site in Ancona, Via Trieste 2;
iii) full ownership of receivables due from Multiservizi for services to EDMA for a nominal value of Euro 1,871 thousand, and receivables due from Multiservizi to users for the provision of integrated water services for a nominal value of Euro 930 thousand, both due for payment within twelve months;
iv) full ownership of software licenses for the administrative and accounting management of multi-utilities relating to the service activities of EDMA.

The transactions described in Phase 1 a) and b) are classed as “Business combinations under common control” and have as their objective “Group Reorganisation” in the context of the subgroup EDMA; therefore, such transactions did not impact the Consolidated Financial Statements as at December 31, 2017, in accordance with standard IFRS 3.

In particular:

a) the demerger of EDMA Reti Gas S.r.l., 100% of which held by EDMA, through the establishment of the new company TuAreti Gas S.r.l. is not classed as a business combination as defined by IFRS 3 and was therefore recognised at the book value of the demerged equity, equal to Euro 15,500 thousand at the demerger date as shown below:

Description	**Value**
Assets under concession	10,624
Non-current financial assets	5,000
Trade receivables	143
Total Assets	**15,767**
Liabilities	
Leaving indemnity payments and other payables to employees	267
Total liabilities	**267**
Net assets	**15,500**

b) the reduction in share capital of EDMA, with direct beneficiaries Multiservizi and Estra with 55% and 45% of the total shareholding in EDMA Reti Gas S.r.l. respectively, is classed as an allocation of dividends by EDMA to its joint control shareholders, since are not allocated cash or cash equivalents but an asset, specifically the holding in ERG.

In consideration of its characteristics, the transaction was recognised at book value (Euro 9,951 thousand).

The transaction described in Phase 2, namely the transfer to Estra by Multiservizi of its representative interest of 55% of the share capital of EDMA is classed as a business combination in which the buyer party obtained the control of EDMA through the issue of shares.

As a result of the transaction, EDMA, previously constituted as a joint venture consolidated using the equity method, became a 100% subsidiary of the Group towards the end of the financial year; for this reason, the Consolidated Financial Statements of the company’s assets and liabilities, consolidated together with those of the subsidiary TuAreti S.r.l., have been included as at December 31, 2017 without including the Income Statement.

The fair value of the assets and liabilities attributable to EDMA and TuAreti on the acquisition date was Euro 38,830 thousand, resulting from the Directors' Report prepared during the capital increase which transferred the 55% stake in EDMA held by Multiservizi, confirmed by the report prepared pursuant to and for the purposes of Article 2343 ter, paragraph 2, letter b) of the Italian Civil Code by an appointed expert.

The fair value of the acquired assets and liabilities is shown in the table below:

Statement of Financial Position	Fair value
NON-CURRENT ASSETS	
Tangible assets	59
Intangible assets - Assets under concession IFRIC 12	9,509
Other intangible assets	192
Investments	45,739
Estra Energie	*41,980*
SIG	*3,171*
AES Fano	*588*
Other non-current financial assets	5,000
Deferred tax assets	65
	60,564
CURRENT ASSETS	
Trade receivables	9,402
Other current assets	7,578
Cash and cash equivalents	4,318
	21,297
TOTAL ASSETS	**81,862**
NON-CURRENT LIABILITIES	
Non-current portion of long term financial liabilities	1,070
Employee Leaving Indemnity provision	118
Deferred tax liabilities	14
	1,202
CURRENT LIABILITIES	
Current portion of long term financial liabilities	598
Trade payables	5,442
Tax payables	61
Other current liabilities	3,958
	10,059
TOTAL LIABILITIES	**11,262**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**70,600**
Transfer of capital increase (55%)	**38,830**

The transaction led to the acquisition of the non-controlling interests in Estra Energie held by Multiservizi trough EDMA (24.47%); consequently, at the consolidated level, the Minority Shareholders' Equity was eliminated and the difference (Euro 12,734 thousand) between the acquired Shareholders' equity attributable to non-controlling interests and the amount paid (transfer value) was recorded as consolidated equity, as provided by IFRS 3 for the acquisition of shareholdings in existing subsidiaries.

The business combination transaction did not produce effects on the Income Statement deriving from the re-measurement at fair value of the 45% stake in EDMA already held prior to the acquisition.

As the business combination took place at the end of the financial year, the full consolidation of EDMA and TuArete did not impact the Income Statement of 2017.

As regards EDMA, if the business combination had been effective from the beginning of the year, the effects on the Income Statement would have been insignificant.
As regards TuArete, if the business combination had been effective from the moment of its establishment (August 7, 2017), the Statement of Income of the Consolidated Financial Statements as at December 31,

2017 would have presented higher revenues of Euro 850 thousand, a higher operating result of Euro 196 thousand and a higher net result of Euro 139 thousand.

- **Acquisition of control of Piceno Gas Vendita S.r.l.**

On March 30, 2017 the Group acquired control of the company Piceno Gas Vendita S.r.l. following the acquisition for a price of Euro 6,323 thousand of a 45% share by Estra Energie S.r.l., who already owned 45% of the share capital in the previous financial year. The remaining 10% to attain full control of the company was acquired on December 4, 2017 at a price of Euro 1,405 thousand.

In the Consolidated Financial Statements of Estra as at December 31, 2017, March 31, 2017 was entered as the consolidation date and included on the Income Statement of the subsidiary for the nine months of the reporting period ending on December 31, 2017.
The business combination transaction did not produce effects on the Income Statement deriving from the re-measurement at fair value of the 45% stake in Piceno Gas Vendita already held prior to the acquisition, as the book value was the same as the fair value on the date of acquisition.

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

Statement of Financial Position at March 31, 2017	Fair value
NON-CURRENT ASSETS	
Tangible assets	19
Customer List	18,196
Intangible assets	17
Other non-current assets	2
Deferred tax assets	218
	18,452
CURRENT ASSETS	
Trade receivables	7,028
Tax receivables	47
Other current assets	41
Cash and cash equivalents	492
	7,608
TOTAL ASSETS	**26,060**
NON-CURRENT LIABILITIES	
Employee Leaving Indemnity provision	164
Deferred tax liabilities	5,244
	5,408
CURRENT LIABILITIES	
Short-term financial liabilities	970
Trade payables	5,015
Tax payables	291
Other current liabilities	375
	6,650
TOTAL LIABILITIES	**12,058**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**14,002**
Acquisition Price, including shares already held at the end of the previous financial year	**14,002**

From the date of acquisition, Piceno Gas Vendita S.r.l. contributed, net of intercompany eliminations, to Group revenues of Euro 3,665 thousand, the operating result for a loss of Euro 717 thousand and Group net income for a loss of Euro 473 thousand.

If the business combination had been effective from the beginning of the year, the Statement of Income of the Consolidated Financial Statements as at December 31, 2017 would have presented higher revenues of Euro 1,436 thousand, a higher operating result of Euro 171 thousand and a lower net result of Euro 57 thousand.

- **Acquisition of control of Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A.**

In the months of August and September 2017, Estra S.p.A., already the shareholder of 44.44% of Cavriglia SPV and 49% of Tegolaia SPV, acquired the residual share capital to gain full control of both companies.

Specifically, Estra signed:
- with CCC Soc. Coop. and with Cellini GTC Soc. Coop, a contract to acquire 55.56% of the share capital of Cavriglia SPV S.p.A. (equalling 1,309,722 of which 1,047,778 shares from CCC Soc. Coop. and 261,944 shares from Cellini GTC Soc. Coop.) for an overall amount of Euro 1,192 thousand, of which Euro 954 thousand was paid to CCC Soc. Coop. and Euro 238 thousand paid to Cellini GTC Soc. Coop respectively;
- with CCC Soc. Coop., a contract to acquire 49% of the share capital of Tegolaia SPV S.p.A. (equalling 534,313 shares) for an overall amount of Euro 351 thousand.
- with Consorzio Toscano Cooperative CTC, a contract to acquire 2% of the share capital of Tegolaia SPV S.p.A. (equalling 21,808 shares) for an overall amount of Euro 14 thousand.

In the Consolidated Financial Statements of Estra as at December 31, 2017 for the purposes of consolidation were assumed the most updated financial values at the acquisition date, September 30, 2017, and the income statement for the last quarter of the subsidiaries.

The business combination transactions produced a negative value adjustment of Euro 24 thousand for Cavriglia and a positive value adjustment of Euro 55 thousand for Tegolaia resulting from the re-measurement of the fair value of the holdings, of 44.44% and 49% respectively, already held prior to the acquisition.

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

Statement of Financial Position	Fair value recognised on acquisition of Cavriglia	Fair value recognised on acquisition of Tegolaia
NON-CURRENT ASSETS		
Tangible assets	23,554	11,865
Deferred tax assets	103	78
	23,657	**11,942**
CURRENT ASSETS		
Trade receivables	863	424
Tax receivables	1,642	1,231
Current financial assets	21	
Other current assets	3	
Cash and cash equivalents	4,087	1,452
	6,616	**3,108**
TOTAL ASSETS	**30,273**	**15,051**
NON-CURRENT LIABILITIES		
Provisions	308	226
Non-current portion of long term financial liabilities	24,984	12,089
Deferred tax liabilities	20	35
	25,313	**12,350**
CURRENT LIABILITIES		
Current portion of long term financial liabilities	1,375	664
Short-term financial liabilities	281	143
Trade payables	942	733
Tax payables	154	74
Other current liabilities	63	15
	2,815	**1,630**
TOTAL LIABILITIES	**28,128**	**13,979**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**2,146**	**1,071**
Acquisition Price, including shares already held at the end of the previous financial year	**2,146**	**1,071**

The items "Current and non-current portion of long term financial liabilities" refer to Euro 26,211 thousand for project financing obtained by the companies to finance the construction of the photovoltaic plants, and Euro 7,075 thousand for shareholders' loans issued by Estra for the shares issued by the Selling Shareholders, eliminated in the Consolidated Financial Statements and the current value of future concession fees.

The acquisition also led to the recognition of Interest Rate Swap derivative instruments (IRS) to hedge the risk of unfavourable changes to the interest rates applicable to project financing loans at the time of acquisition. The instruments, which are effective hedges, were recognised at fair value, net of any fiscal effects, to Shareholders' Equity in the specific item defined as "Cash flow hedge reserves" (with a negative value of Euro 1,497 thousand for Cavriglia and a negative value of Euro 397 for Tegolaia).

It is noted that on December 20, 2017, in order to rationalise the aforementioned financial costs, the financing projects and relative Interest Rate Swap derivative instruments (IRS) were eliminated in advance.

The companies are the holders of a concession for the design, implementation and management of photovoltaic plants in the Municipality of Cavriglia (AR) and relative related works. The concession includes:

a) Planning and management of the works, health and safety coordination during design and execution;
b) The realization of all works, services and supplies required to complete the works and to make the plant operating;
c) Ordinary and extraordinary maintenance, replacements and restorations of machines, equipment and devices in order to guarantee the optimal function of all related plants and works;
d) The operational management and economic exploitation of the works carried out for the duration of the concession (20 years from the plan becoming operating).

The concessionary arrangement between the companies and the granting Municipality was recognised in accordance with IAS 17.50 as a sale and leaseback transaction (IAS 17.59); as such, after the construction of the plant and the transfer of ownership to the Municipality, the Group did not lost control of the same, which is therefore recognised as a tangible asset at construction cost plus disassembly costs, amortised over the duration of the concession. The value of the tangible asset is also inclusive of the current value of future concession fees recognised as indirect construction costs of construction and for which a financial liability has been recorded (Euro 3,575 thousand for Cavriglia and Euro 1,809 thousand for Tegolaia).

From the date of acquisition, Cavriglia SPV S.p.A. contributed, net of intercompany eliminations, to Group revenues for Euro 472 thousand, the operating result for a loss of Euro 38 thousand, and Group net income for a loss of Euro 2,174 thousand.

If the business combination had been effective from the beginning of the year, the Statement of Income of the Consolidated Financial Statements as at December 31, 2017 would have presented higher revenues of Euro 2,633 thousand, a higher operating result of Euro 1,259 thousand and a higher net result of Euro 213 thousand.

From the date of acquisition, Tegolaia SPV S.p.A. contributed, net of intercompany eliminations, to Group revenues of Euro 267 thousand, the operating result for a loss of Euro 48 thousand and Group net income for a loss of Euro 683 thousand.

If the business combination had been effective from the beginning of the year, the Statement of Income of the Consolidated Financial Statements as at December 31, 2017 would have presented higher revenues of Euro 1,330 thousand, a higher operating result of Euro 664 thousand and a higher net result of Euro 110 thousand.

➢ **Acquisitions of additional interests in existing subsidiaries**

In the course of the 2017 financial year, the following acquisitions and disposals of non-controlling interests in existing subsidiaries took place:

- Acquisition of 9.08% of Estracom S.p.A. held by Planetaria S.r.l., for a price of Euro 637 thousand, to reach a controlling interest of 79.32%;

- Acquisition of 35% of Biogenera S.r.l., held by the Municipality of Calenzano and Alia Servizi Ambientali S.p.A. with the resulting acquisition of the total control of the subsidiary. The acquisition took place following the cancellation of the share capital to cover the losses resulting from the 2016 Financial Statements and full subscription of the new share capital by Estra Clima S.r.l., wholly owned by the Parent Company. The subsidiary was merged by incorporation into Estra Clima before the end of the financial year;

- Acquisition of 40% of Exo Energy Trading S.r.l. held by Openlogs S.r.l., at a price of Euro 303 thousand, with the resulting acquisition of the total control of the company by Estra Energie S.r.l.. The subsidiary was merged by incorporation into Estra Energie S.r.l. before the end of the financial year;

- Acquisition of 12.72% of Gastronto S.r.l., for a price of Euro 483 thousand, with Estra Energie S.r.l. subsequently reaching a controlling interest of 92.67%;

- Acquisition of 40% of Estra Elettricità S.r.l. held by Canarbino S.r.l., at a price of Euro 9,012 thousand, with the resulting acquisition of total control of the company by Estra Energie S.r.l. on the basis of the agreement signed between the parties on October 25, 2017;

- Acquisition of 33.013% of the share capital of ETA 3 S.p.A. held by Edison, at a price of Euro 9,270 thousand, with the resulting acquisition of the total control of the company by Estra S.p.A.. At the acquisition date, the company held shares representing 0.22% of Estra and 21.20% of the shares in Estra Energie S.r.l.

A summary of the prices paid, the book value of the acquired net assets and the effects recognised in Shareholders' Equity according to accounting standard IFRS 3 is given below:

Company	**% Acquired**	**Book value of the acquired interests**	**Price paid**	**Retained gains (losses)**	**Actuarial reserve IAS 19**
Estracom	9.08%	793	637	156	1
Biogenera	35.00%	(68)	-	(68)	-
Exo	40.00%	69	303	(234)	-
Gastronto	12.72%	1,036	483	553	-
ETA 3	33.01%	4,651	9,270	(4,616)	(3)
Estra Elettricità	40.00%	496	9,012	(8,516)	(2)
Total		**6,977**	**19,705**	**(12,725)**	**(4)**

In reference to the acquisition of 40% of Estra Elettricità S.r.l. by Estra Energie, it is noted that under the same agreement, the parties implemented the intention of Canarbino to acquire (and, therefore, the intention of the Estra Group to transfer) supply contracts for natural gas and electricity to regions outside Tuscany. The reorganisation of the portfolio led to the transfer to Canarbino from Estra Energie and Estra Elettricità of approximately 11,000 and 25,000 contracts for the supply of gas and electricity respectively. As a result of the difference between the transfer price of the contracts and the net book value of the acquisition cost of the clients, equating to Euro 1,959 thousand for gas contracts and Euro 3,880 thousand for electricity contracts, capital gains were recorded for Euro 1,687 thousand and Euro 1,487 thousand respectively, recognised as Shareholders' Equity in the Consolidated Financial Statements, considering the transfers as transactions under the agreement for the purchase of non-controlling interests (IFRS 10.B97).

- **Sale of shares in subsidiaries without loss of control**

In conjunction with the acquisition of shares in ETA3 from Edison, the Group sold 6.5% of the shares in Prometeo S.p.A. for a total of Euro 3,770 thousand.

The price paid, the book value of the acquired net assets and the effects recognised in Shareholders' Equity according to accounting standard IFRS 3 are given below:

Company	% sold	Book value of the sold interests	Price collected	Retained gains (losses)	Actuarial reserve IAS 19
Prometeo	6.50%	3,468	3,770	303	(1)
Total		**3,468**	**3,770**	**303**	**(1)**

- **business transferring from Energie Offida S.r.l. to Centria S.r.l.**

The transfer values effective from January 1, 2017 are summarised below:

	Assets		Liabilities
Assets under concession	1,212	Deferred tax liabilities	103
		Other current liabilities	39
		Net value of business unit	**1,070**

The transfer resulted in the acquisition by Energia Offida S.r.l. of 0.35% of Centria S.r.l. The operation, similar to a partial sale of investment without loss of control, produced a result of Euro 727 thousand resulting from the difference between the fair value of the transfer and the amount of non-controlling interests created by the transaction, recognised under Shareholders' Equity in the Consolidated Financial Statements as at December 31, 2017.

- **Disposal of Andali Energia S.r.l.**

On December 15, 2017, the Group sold 100% of the share capital of Andali Energie S.r.l. to Sunshine S.r.l., holder of the Single Authorisation (Autorizzazione Unica) for the construction of a 36 MW wind energy plant in the Municipality of Andali (CZ).

The decision was primarily motivated by the uncertainty around realising the investment and the risk pertaining to the arbitration proceedings initiated during the previous financial year against Terna Rete Elettrica Nazionale S.p.A. ("Terna").
The arbitration proceedings included i) the submission by Andali of a request to terminate the connection contract *inter partes* due to non-fulfilment by Terna and, in particular, for delays in the construction by Terna of an electrical substation at the Belcastro site in time to allow the connection of the wind farm to the national electricity grid, in compliance with the conditions of the Single Authorisation and tariff obtained, with a request for compensation for damages sustained; and ii) the submission by Terna, opposing the conclusions of Andali, of a counterclaim against Andali which amounts to Euro 7,153 thousand, with an additional Euro 1,700 thousand for each year of the delay in completing the works.
To guarantee the completion and connection of the wind farm within the times provided in the tariff tendering procedure, a security guarantee was issued to GSE for a total of Euro 4,410 thousand.
In the Financial Statement for the year ending December 31, 2016, the difficulties of completing the plant within the deadlines had prompted the Directors to devalue the full value of the intangible assets recorded with regard to the authorisation, planning and development costs of the wind farm. Consequently, a provision was accrued in order to hedge the risk of non-recoverability of costs for work and pre-

construction works already sustained at the end of the year as well as the risk of enforcement of the security guarantee.

The agreement predominantly involves:

i) a consideration for the sale of the entire shareholding in Andali equal to Euro 1 with incremental price revision clauses subject to the construction of the wind farm, variable according to the tariffs recognised at the time of connection;

ii) the write-off of receivables and loans held by the Group with regard to Andali for Euro 1,871 thousand;

iii) a guarantee issued by Estra to hold harmless Sunshine, up to a limit of Euro 175 thousand, from any charges arising from the summons submitted on June 21, 2017 by a landowner for alleged contractual default and the order to pay Euro 492 thousand as fees accrued and not paid, as well as general and legal expenses.

iv) a guarantee received from Sunshine to indemnify Estra from any negative consequences deriving from the enforcement of the security guarantee by GSE for a total value of Euro 2,205 thousand (50% of the total).

The Consolidated Financial Statements of the current year include the deconsolidation of the net assets of Andali at Euro 1,656 thousand, as shown below, a maximum risk provision of Euro 175 thousand referred to in point iii) above and the reversal of the risk provision for the amount of Euro 2,205 referred to in point iv) above, with a positive net effect on the Income Statement of Euro 374 thousand.

Deconsolidation of Andali Energia S.r.l.	**As as December 15, 2017**
NON-CURRENT ASSETS	
Tangible assets	239
Intangible assets	2,856
Deferred tax assets	1,343
	4,438
CURRENT ASSETS	
Tax receivables	885
Other current assets	370
Cash and cash equivalents	2
	1,257
TOTAL ASSETS	**5,695**
NON-CURRENT LIABILITIES	
Provisions	2,610
	2,610
CURRENT LIABILITIES	
Short-term financial liabilities	567
Trade payables	242
Tax payables	9
Other current liabilities	611
	1,429
TOTAL LIABILITIES	**4,039**
NET DISPOSED ASSETS	**1,656**

7.2 Year ended as at December 31, 2016

➢ Prometeo

In 2016, the Group acquired 59.59% of Prometeo, indirectly owned by Estra at 26.82% through EDMA S.r.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 share 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 Article 2465, paragraph 1 of the Italian Civil Code. Following the increase, EDMA S.r.l. has therefore become a shareholder of Estra Energie at 21.15%;
- 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 thousand, resulting in an 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 elected to measure the non-controlling interests in the acquiree (Prometeo) in proportion to the investments in its identifiable net assets.

The fair values of the identifiable assets and liabilities of Prometeo as at the date of acquisition were Euro 57,995 thousand, as resulted from the aforementioned estimated appraisal.

The Fair values of the identifiable assets and liabilities were:

Statement of Financial Position	Fair value recognised 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 receivables	74,950
Tax receivables	2,037
Other current assets	1,901
Cash and cash equivalents	24,774
	103,663
TOTAL ASSETS	**174,764**
NON-CURRENT LIABILITIES	
Provisions	57
Employee Leaving Indemnity provision	329
Deferred tax liabilities	17,028
	17,414
CURRENT LIABILITIES	
Short-term financial liabilities	29,201
Trade payables	25,025
Tax payables	11,446
Other current liabilities	33,682
Other financial liabilities	
	99,354
TOTAL LIABILITIES	**116,769**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**57,995**
Non-controlling interest measured at fair value	**(23,436)**
Acquisition price	**34,559**

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

The accounting impacts of the transaction are represented by 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 transaction, recognised in Shareholders' Equity as required by IFRS 10.B96.

From the date of acquisition, Prometeo contributed, net of intercompany eliminations, to Group revenues in 2016 for a value of Euro 42,024 thousand, to an operating result for Euro 1,176 thousand and to Group net income for Euro 1,096 thousand.

If the business combination had been effective from the beginning of the year, the Statement of Income of the Consolidated Financial Statements as at December 31, 2016 would have presented higher revenues of Euro 21,449 thousand, a higher operating result of Euro 285 thousand and a lower net result of Euro 44 thousand.

- **Acquisition of Coopgas S.r.l.**

As of February 1, 2016, Estra S.p.A. acquired the 100% shareholding in the share capital of Coopgas S.r.l., with registered office in Concordia (MO), from CPL Concordia Società Cooperativa, at a price of Euro 18,170 thousand.
The fair values of the identifiable assets and liabilities of Coopgas as at the date of acquisition were:

Statement of Financial Position	Fair value recognised on acquisition
NON-CURRENT ASSETS	
Tangible assets	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 receivables	5,975
Tax receivables	2,839
Other current assets	1,034
Cash and cash equivalents	18,309
	29,433
TOTAL ASSETS	**46,212**
NON-CURRENT LIABILITIES	
Provisions	
Employee Leaving Indemnity provision	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 payables	2,488
Tax payables	189
Other current liabilities	2,795
Other financial liabilities	
	15,766
TOTAL LIABILITIES	**28,042**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**18,170**
ACQUISITION PRICE	**18,170**

From the date of acquisition, Coopgas contributed, net of intercompany eliminations, to Group revenues in 2016 for a total of Euro 16,305 thousand, resulting in significant effects on the operating result and net income of the Group. The company merged into Estra Energie during the 2017 financial year.

7.3 Year ended as at December 31, 2015

- **Acquisition of Gastronto**

In the course of 2015, the subsidiary Estra Energie S.r.l. acquired from various Municipalities a shareholding representing 79.95% of the share capital of Gas Tronto Srl, a Gas Sales Company with registered offices in Spinetoli (AP) with a client base of approximately 11,000 clients, for a total price of Euro 6,180 thousand.

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

Statement of Financial Position	Fair value recognised on acquisition
NON-CURRENT ASSETS	
Tangible assets	1
Customer List	10,447
	10,448
CURRENT ASSETS	
Trade receivables	1,610
Tax receivables	267
Other current assets	26
Cash and cash equivalents	903
	2,806
TOTAL ASSETS	**13,254**
NON-CURRENT LIABILITIES	
Provisions	200
Employee Leaving Indemnity	1
Deferred tax liabilities	3,010
Other non-current liabilities	174
	3,385
CURRENT LIABILITIES	
Trade payables	1,408
Tax payables	227
Other current liabilities	504
	2,139
TOTAL LIABILITIES	**5,524**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**7,730**
Non-controlling interest measured at fair value	**1,550**
ACQUISITION PRICE	**6,180**

If the business combination had been effective from the beginning of the year, the Statement of Income of the Consolidated Financial Statements as at December 31, 2015 would have presented higher revenues of Euro 5,863 thousand, with insignificant effects on net income.

- **Acquisition of Vea Energia Ambiente S.r.l.**

Following the tender award, in the course of the first quarter of 2015 the subsidiary Estra Energie S.r.l. acquired from Versilia Acque, Iren Mercato S.p.A. and Sermas, for a price of Euro 7,440 thousand, a shareholding of 100% of the share capital of VEA Energia Ambiente Srl. The company, with registered offices in Massarosa (LU), operates predominately in the segment of gas commercialisation in the province of Lucca and has a customer portfolio of approximately 8,500 clients.

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

Statement of Financial Position	Fair value recognised on acquisition
NON-CURRENT ASSETS	
Tangible assets	5
Customer List	8,117
Intangible assets	23
Deferred tax assets	31
	8,176
CURRENT ASSETS	
Trade receivables	976
Tax receivables	550
Other current assets	335
Cash and cash equivalents	1,354
	3,215
TOTAL ASSETS	**11,391**
NON-CURRENT LIABILITIES	
Provisions	66
Employee Leaving Indemnity provisions	71
Deferred tax liabilities	2,339
Other non-current liabilities	
	2,476
CURRENT LIABILITIES	
Trade payables	990
Tax payables	38
Other current liabilities	447
	1,475
TOTAL LIABILITIES	**3,951**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**7,440**
ACQUISITION PRICE	**7,440**

From the date of acquisition, VEA contributed, net of intercompany eliminations, to Group revenues for a total of Euro 4,485 thousand, with insignificant effects on the operating result and net income of the Group.

7.4 Subsidiaries with significant non-controlling interests

Financial information regarding subsidiaries with significant non-controlling interests is provided below.

This information is based on amounts accounted before inter-company eliminations.

Year ended as at December 31, 2017

Proportion of equity interest held by non-controlling interests:

Business name (Fully consolidated subsidiaries)	Registered office	Currency	Core business activity	% of Non-controlling Interests
Prometeo S.p.A.	Osimo (AN)	Euro	Gas and electricity sales	40.41%

Income Statement (in thousands of Euro)	Prometeo
Revenues	
Revenues from sales and services	119,119
Other operating income	1,535
	120,655
Operating expenses	
Purchases of goods, raw materials and ancillary materials	74,336
Costs for services	36,006
Costs for leased third-party assets	235
Personnel costs	1,459
Amortisation, depreciation, provisions and impairment	6,238
Other operating expenses	82
	118,356
OPERATING RESULT	**2,298**
Financial income	372
Financial expenses	254
FINANCIAL INCOME AND CHARGES	**118**
INCOME BEFORE TAXES	**2,416**
Taxes on income for the year	1,170
NET INCOME FOR THE YEAR	**1,246**

Statement of Financial Position (in thousands of Euro)	Prometeo
NON-CURRENT ASSETS	
Tangible assets	68
Goodwill	8,065
Intangible assets	2,750
Investments	1,071
Other non-current financial assets	
Other non-current assets	29
Deferred tax assets	2,943
	14,927
CURRENT ASSETS	
Trade receivables	52,377
Tax receivables	1,551
Other current assets	574
Cash and cash equivalents	7,962
	62,464
TOTAL ASSETS	**77,391**
TOTAL SHAREHOLDERS' EQUITY	**16,316**
NON-CURRENT LIABILITIES	
Provisions	139
Employee Leaving Indemnity provision	367
	506
CURRENT LIABILITIES	
Long-term financial liabilities within 12 months	
Short-term financial liabilities	1,564
Trade payables	52,748
Tax payables	1,521
Other current liabilities	4,735
Other financial liabilities	
	60,568
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**77,391**

Year ended as at December 31, 2016

Business name (Fully consolidated subsidiaries)	Registered office	Currency	Core business activity	% of Non-controlling Interests
E.S.TR.A. Energie S.r.l.	Siena (SI)	Euro	Natural gas sale	20.46%
EXO Energy Trading S.r.l.	Siena (SI)	Euro	Gas trading	52.28%
ESTRA Elettricità S.p.A.	Prato (PO)	Euro	Electricity sales	52.28%
Prometeo S.p.A.	Osimo (AN)	Euro	Gas and electricity sales	52.60%

Income Statement	Estra Energie	Exo	Estra Elettricità	Prometeo
Revenues				
Revenues from sales and services	542,065	275,587	110,665	139,163
Other operating income	20,727	1,325	3,931	2,250
	562,792	**276,912**	**114,596**	**141,413**
Operating expenses				
Purchases of goods, raw materials and ancillary materials	392,815	274,503	98,969	90,852
Costs for services	121,227	762	4,068	38,734
Costs for leased third-party assets	825		63	187
Personnel costs	6,883	70	701	1,779
Amortisation, depreciation, provisions and impairment	10,730		7,803	6,582
Other operating expenses	916	397	1,162	901
	533,396	**275,732**	**112,766**	**139,035**
Financial income (expenses) from commodity risk management	1,063	(1,601)		
OPERATING RESULT	**30,459**	**(421)**	**1,830**	**2,378**
Financial income	1,962	55	169	328
Financial expenses	(877)	(151)	(1,155)	(404)
Gains and losses on foreign exchange	-	(2)		
FINANCIAL INCOME AND CHARGES	**1,085**	**(98)**	**(985)**	**(76)**
INCOME BEFORE TAXES	**31,544**	**(519)**	**844**	**2,302**
Taxes on income for the year	11,873	(89)	715	1,244
NET INCOME FOR THE YEAR	**19,671**	**(430)**	**129**	**1,058**

Statement of Financial Position	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 receivables	183,094	29,362	40,656	62,725
Tax receivables	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**
TOTAL ASSETS	**314,725**	**59,276**	**58,995**	**88,618**
TOTAL SHAREHOLDERS' EQUITY	**71,106**	**190**	**1,241**	**16,101**
NON-CURRENT LIABILITIES				
Provisions	143			169
Employee Leaving Indemnity provision	673	3	118	310
Long-term financial liabilities over 12 months	15,104		502	
Deferred tax liabilities	82			
Other non-current liabilities				
	16,002	**3**	**620**	**479**
CURRENT LIABILITIES				
Long-term financial liabilities within 12 months	495		498	
Short-term financial liabilities	60,120	0	4,003	20,634
Trade payables	135,419	35,122	49,197	35,172
Tax payables	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		
	222,619	**59,083**	**57,134**	**72,038**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**314,725**	**59,276**	**58,995**	**88,618**

7.5 Investments in joint ventures

As at December 31, 2017, the Group has a 45% interest in EDMA Reti Gas S.r.l., for which the Group exercises joint control with Multiservizi S.r.l., shareholder of a 55% interest, based on statutory provisions and shareholders' agreements.

The company operates in the natural gas distribution segment, carrying out management activities of gas systems and supply/distribution networks in the province of Ancona.

The 45% interest held indirectly by the Group as at December 31, 2016 through EDMA S.r.l. is held directly by the Group in the current Consolidated Financial Statements following the allocation of shares to Estra and Multiservizi which took place during the financial year as described in the paragraph Business combinations and acquisition of non-controlling interests.

The interest recorded as at December 31, 2017 for Euro 9,602 thousand is accounted for using the equity method.

The following table shows the main economic and equity figures:

Statement of Financial Position	**December 31, 2017**
Assets under concession	23,008
Cash and cash equivalents	7,664
Equity	22,290
Bank debts	4,282

Income Statement	**December 31, 2017**
Operating Income	36,228
Operating expenses	30,980
Amortisation and depreciations	3,585
Operating result	70,793
Net income for the year	921

8. Commentary on the main items of the Statement of Income

8.1 Revenues

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, revenues amount to Euro 1,016,504 thousand, Euro 1,044,394 thousand and Euro 921,826 thousand respectively. A detailed breakdown is given below:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	2016	2015
Revenues from sales and services	979,126	1,007,144	844,871
Other operating income	37,378	37,250	76,955
Total revenues	**1,016,504**	**1,044,394**	**921,826**

8.1.1 Revenues from sales and services

The following list details the revenues from the Group's sales and services as at December 31, 2017 compared with the financial years ending at December 31, 2016 and 2015:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	2016	2015
Revenues from methane gas distribution	16,791	17,423	19,392
Revenues from sales of methane gas	825,715	832,263	703,553
Revenues from sales and distribution of LPG	3,363	3,034	3,166
Revenues from sales of electricity	106,355	124,317	95,157
Revenues from telecommunications services	4,514	4,090	3,832
Revenues from other Group operations	8,259	13,455	7,538
Increases in non-current assets from in-house production	14,129	12,562	12,233
Revenues from sales and services	**979,126**	**1,007,144**	**844,871**

In the 2017 financial year, revenues from the sale of methane gas decreased mainly due to the reduction in revenues from the physical balancing of gas and from gas trading activities, which more than offset the increase in revenues from gas sales, up on the previous year due to higher volumes sold and the expansion of the client base.

Revenues from the sale of electricity decreased in 2017 compared to the previous year due to the combined effect of the increase in revenues from raw materials and fixed components and the reduction in revenues from transport and dispatching components at similar costs.

Revenues from the sale of methane gas and electricity recognised as at December 31, 2017 include provisions for the estimated supply of electricity and gas supplied to end clients and not yet invoiced as at December 31, 2017. The estimate is based on information regarding distributed and allocated volumes obtained from carriers, subject to potential adjustments.

As regards the 2016 financial year, the increase in revenues compared to December 31, 2015 was mainly due to the increase in volumes and revenues of gas and electricity sales, as a result of the expansion of the client base and the corporate acquisitions completed in the course of the year.

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

The Group operates in Italy, with the exception of the discontinued operation of Useneko which is located in Poland.

8.1.2 Other operating income

The following list details the other operating income from the Group's sales and services as at December 31, 2017 compared with the financial years ending at December 31, 2016 and 2015:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	2016	2015
Reimbursement of seconded personnel costs	1,568	1,882	2,237
Revenues for post-metering services and services provided at the delivery point	5,097	2,453	1,921
Current portion of contributions received	1,475	1,199	778
Use of risk provisions		1,489	-
Energy Efficiency Certificates	17,615	12,419	7,114
APR adjustment		3,973	-
Other revenues	11,601	13,725	9,967
Extraordinary management gains	22	110	54,938
Other operating income	**37,378**	**37,250**	**76,955**

The item "Energy Efficiency Certificates" (EEC/TEE - Titoli Efficienza Energetica) includes the value of the EECs relative to the financial year 2017 as tariff contributions pursuant to the ARERA resolutions, which increased slightly due to the rise in unit prices.

The item "APR adjustment" for the 2015 financial year refers to the recognition by ARERA to the Group of an adjustment, introduced with Resolution 447/2013/R/gas, to promote the renegotiation of long-term supply contracts relative to the three Thermal Years 2014/2016.

The item "Extraordinary management gains" for the 2015 financial year refers to the capital gains deriving from the sale of the gas distribution plant in the Municipality of Prato. It is noted that following the final award to Toscana Energie of the tender for the natural gas distribution service in the region of the Municipality of Prato, Centria, Toscana Energie and the Municipality of Prato signed on August 31, 2015 the handover agreement for the network with the relative plants and assets constituting the natural gas distribution system with a simultaneous compensation payment to Centria of Euro 85,538 thousand, which generated gains for Euro 54,911 thousand, net of the network carrying value. For more details on the dispute regarding the sale of the gas distribution plant in 2015, see Note 10.4.1.1 "Main current litigations".

The item "Other revenues" refers to the financial, administrative, legal, information systems and marketing management services performed for associates and jointly controlled subsidiaries.

8.2 Operating expenses

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, revenues amount to Euro 972,182 thousand, Euro 1,007,016 thousand and Euro 853,634 thousand respectively. A detailed breakdown is given below:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	2016	2015
Raw materials, ancillary materials, consumables and goods for resale	716,788	760,594	672,266
Costs for services	133,913	124,116	66,079
Use of third-party assets	12,855	12,224	15,769
Wages and salaries	34,218	32,319	31,229
Amortisation, depreciation, provisions and impairment	42,964	49,262	41,944
Other operating expenses	31,444	28,501	26347
Operating expenses	**972,182**	**1,007,016**	**853,634**

8.2.1 Purchase of raw and ancillary materials, consumables and goods

The costs for the purchase of raw materials, ancillary materials, consumables and goods amount to Euro 716,788 thousand as at December 31, 2017, Euro 760,594 thousand as at December 31, 2016 and Euro 672,266 thousand in 2015.

The most significant component of the item is represented by the costs for the purchase, transport and storage of gas, amounting to Euro 622,711 thousand (Euro 623,910 thousand in 2016) and the costs for the purchase, dispatching and transport of electricity, amounting to Euro 90,220 thousand (Euro 108,346 thousand in 2016). The item also includes costs for the purchase of gas for trading activities.

The most significant component of the item as at December 31, 2015 was represented by the costs for the purchase, transport and storage of gas for Euro 578,597 thousand, as well as the costs for the purchase, dispatching and transport of electricity for Euro 88,257 thousand.

Gas purchase costs include those deriving from a long-term contract for delivery to Travisio with Sinergie Italiane S.r.l. and Gazprom Export LLC, with resale of the gas to Group companies.

The costs for the purchase of raw and ancillary materials, consumables and goods in the 2017 financial year fell compared to the 2016 financial year due to a reduction in purchases of gas for trading activities, partly mitigated by the increase in the purchases of gas and electricity following an increase in demand linked to revenue performance.

Costs for the purchase of raw and ancillary materials, consumables and goods in the 2016 financial year increased compared to the 2015 financial year due to an increase in demand linked to revenue performance.

8.2.2 Costs for services

The following list details the Group costs for services as at December 31, 2017 compared with the financial years ending at December 31, 2016 and 2015:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	**2016**	**2015**
Costs for gas distribution to users	85,554	76,222	29,355
Costs for renovation of third party plants and for tenders and maintenance	7,420	8,214	7,941
Professional fees	8,927	9,303	7,744
Technical, fiscal, administrative and notary fees and consulting services	5,554	5,880	5,167
Costs for advertising and sponsoring the Group's products	2,778	2,027	1,144
Costs relative to customer management and for the printing and delivery of bills	5,662	4,938	3,018
Insurance	1,668	1,546	1,399
Telecommunications services	1,691	935	704
Other costs for services	14,660	15,051	9,607
Costs for services	**133,913**	**124,116**	**66,079**

The item "Costs of gas distribution to users" shows a significant increase in the 2017 financial year compared to the previous year, mainly due to the increase in the volumes distributed. The significant increase in the item in the 2016 financial year compared to the previous year is mainly due to the sale to minority shareholders of the distribution service in the Municipality of Prato in September 2015, previously performed by the subsidiary Centria S.r.l.

8.2.3 Costs for leased third-party assets

The following list details the costs for leased third-party assets as at December 31, 2017 compared with the financial years ending at December 31, 2016 and 2015:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	**2016**	**2015**
Gas concession fees	6,958	6,954	11,242
Rental of company offices	2,681	2,026	1,997
Different rents and fees	3,716	3,244	2,530
Costs for leased third-party assets	**12,855**	**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 2,516 thousand to municipalities served by Centria S.r.l. and the shareholders Coingas S.p.A., Consiag S.p.A. and Intesa S.p.A. (Euro 2,409 thousand in 2016 and 6,661 thousand in 2015);
- Euro 661 thousand to municipalities served by Gergas S.p.A. (Grosseto) (Euro 737 thousand in 2016 and 2015);
- Euro 3,710 thousand to municipalities whose distribution and measurement service was provided by Centria S.r.l., according to concession after public tender (Cavriglia, Figline Valdarno, Follonica, Montevarchi, Seravezza) (Euro 3,735 thousand in 2016 and 3,730 thousand in 2015).

The reduction in costs for concession fees recorded in the 2016 financial year compared to 2015 is mainly due to two factors:

- The loss of the networks in the Municipality of Prato following the sale to the incoming operator Toscana Energia, completed in August 2015, as a result of which the fee to the Municipality of Prato for approximately Euro 850 thousand for the eight months of the 2015 financial year in which Group carried out the distribution service to Prato was not paid;
- The reduction in concession fees paid to Municipalities, following an update to the methods used to determine such fees, for approximately Euro 3,400 thousand.

The item "Rental of Company Offices" refers to costs sustained by the Group to rent company office from the shareholders Consiag S.p.A., Coingas S.p.A. and Intesa S.p.A..

The item "Different rents and fees" mainly refers to ULL (Unbundling Local Loop) fees incurred by the subsidiary Estracom S.p.A. necessary for the performance of telecommunications activities, lease rentals of hardware and software and vehicle lease rental fees.

8.2.4 Personnel costs

Personnel costs for the Group as at December 31, 2017, compared with the financial years ending at December 31, 2016 and 2015, are given below:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	**2016**	**2015**
Wages and salaries	24,772	23,378	22,292
Social security contributions	7,608	7,357	7,326
Employee Leaving Indemnity	1,460	1,361	1,310
Other costs	91	79	83
External employees expenses	286	144	218
Wages and salaries	**34,218**	**32,319**	**31,229**

The increase in the item is mainly due to the growth of the company workforce, partly as a result of the subsidiary acquisitions which took place in 2016 and 2017.

8.2.5 Amortisation, depreciation, provisions and impairment

A detailed breakdown of amortisation, depreciation, provisions and impairment of the Group as at December 31, 2017, compared with the financial years ending at December 31, 2016 and 2015, is given below:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	**2016**	**2015**
Amortisation of intangible assets	26,477	26,262	15,218
Depreciation of tangible fixed assets	4,964	3,944	3,736
Impairment of intangible assets	21	-	9,304
Impairment of tangible fixed assets	1,723	2,582	-
Impairment of trade receivables	9,539	13,503	8,723
Provisions for risks	143	2,942	4,841
Other provisions	97	29	122
Amortisation, depreciation, provisions and impairment	**42,964**	**49,262**	**41,944**

For details of items relating to depreciation, amortisation and impairment of trade receivables, refer to the tables describing tangible assets, intangible fixed assets and provisions for write-downs shown in the explanatory notes to the Statement of Financial Position.

Referring to the impairment of tangible assets, please refer to the Impairment testing note on tangible assets value according to IAS 36.

The item provisions for risks refers to:

	For the years ended as at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Risk provision for technological equipment		180	180
Risk provision for renewable energies		2,257	4,611
Risk provision for legal disputes	167	330	50
Risk provision for fiscal disputes	350		
Reversal of risk provisions for sale of Andali	(374)		
Other Provisions		175	
Provisions for risks	**143**	**2,942**	**4,841**

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

8.2.6 Other operating expenses

The following list details the Group's other operating expenses as at December 31, 2017 compared with the financial years ending at December 31, 2016 and 2015:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	2016	2015
Tariff components - Resolution 159/08	8,574	9,546	11,057
Purchase of Energy Efficiency Certificates	17,861	12,056	5,483
Sundry indirect taxes	1,060	1,015	1,172
Membership fees	715	153	147
Other operating expenses	2,464	4,910	8,328
Losses on disposals	770	821	160
Other operating expenses	**31,444**	**28,501**	**26,347**

The items "Purchase of Energy Efficiency Certificates" and "Tariff Components - Resolution 159/08" refer to costs sustained in order to obtain energy efficiency certificates to meet the obligation of 2017 and the sums due to the Electricity Equalisation Fund for the Electricity Sector in compliance with Resolution no. 159/08 ARERA and subsequent amendments and additions.

For the 2017 financial year, the item "Other operating expenses", which fell compared to previous years, included the repayment of Euro 1,000 thousand relative to the risk provision taken out in the 2015 financial year (originally for a total of Euro 3,370 thousand and aimed at offsetting possible expenses related to the sale of the gas distribution plant in the Municipality of Prato) following the partial revision of the risks related to the possible reduction on the sales price. For more details on the dispute regarding the sale of the gas distribution plant in 2015, see Note 10.4.1.1 "Main current litigations".

8.3 Income / (expenses) from commodity risk management

In the financial years ended as at December 31, 2017, December 31, 2016 and December 31, 2015, the item is composed of gains for Euro 150 thousand, losses for Euro 538 thousand and gains for Euro 35 thousand respectively.

This item refers to the change in fair value of forward contracts (specifically purchase and sale contracts) used in gas trading activities and commodity swap type derivatives that cannot be designated as hedging instruments. More information can be found in the Financial instruments and fair value measurements Note.

8.4 Portion of income from valuation of non-financial long-term investments using the equity method

In the financial years ended as at December 31, 2017, December 31, 2016 and December 31, 2015, income from non-financial investments valued with the equity method accounted for Euro 225 thousand, Euro 470 thousand and Euro 1,073 thousand respectively.

The item refers to the share attributable to the Group of the result of the joint venture EDMA S.r.l. (and its subsidiaries) as at December 31, 2016 and December 31, 2015, and EDMA Reti Gas as at December 31, 2017, valued with the equity method. Considering the non-financial nature of the investments and the significant managerial and operational role of the Group, the Group's share of the subsidiaries' result for the year is reflected in the Income Statement before the operating result.

8.5 Financial income

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, financial income amount to Euro 3,335 thousand, Euro 4,447 thousand and Euro 4,154 thousand respectively. A detailed breakdown is given below:

	For the years ended as at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Income from associated companies	207	184	156
Income from companies under common control	-	6	495
Income from others	2846	4,057	3,503
Revaluations of IRS derivatives	282	200	-
Financial income	**3,335**	**4,447**	**4,154**

Income from associates and jointly controlled companies is accrued from receivables recorded in non-current financial assets on loans granted to the latter.

The item "Other income from others" is mainly relates to the interest accrued on bank and postal current accounts for Euro 910 thousand (Euro 2,384 thousand as at December 31, 2016 and 2,175 thousand as at December 31, 2015) and active interests for late payment charged to clients for Euro 1,917 thousand (Euro 1,602 thousand as at December 31, 2016 and Euro 1,306 thousand as at December 31, 2015).

8.6 Financial expenses

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, financial expenses amount to Euro 17,548 thousand, Euro 13,465 thousand and Euro 12,937 thousand respectively. A detailed breakdown is given below:

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	**2016**	**2015**
Interest payable to holding companies	409	398	503
Interests and other financial expenses	17,139	13,067	12,434
Financial expenses	**17,548**	**13,465**	**12,937**

The item "Interest payable to holding companies" includes interest accrued on loans taken out by the Parent Company with shareholders.

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

(values in thousands of Euro)	For the years ended as at December 31,		
	2017	**2016**	**2015**
Interest payable on current bank accounts	383	865	1,856
Interest payable on loans and financial transactions	7,727	4,703	5,446
Interest payable on bonds	8,511	6,866	4,743
Interest payable - other	303	451	240
Interest on arrears	114	49	36
Interest cost on leaving indemnity payments (TFR)	102	133	113
Interests and other financial expenses	**17,139**	**13,067**	**12,434**

The total of the item “interest payable on loans and financial transactions” for the 2017 financial year was influenced by extraordinary components linked to the early repayment of leasing contracts and the disposal of hedging derivative instruments for a total of Euro 3,274 thousand.

8.7 Portion of income / (expenses) from valuation of financial long-term investments using the equity method

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, the valuation of financial long-term in investments using the equity method resulted in gains of Euro 280 thousand in 2017, losses of Euro 348 thousand in 2016 and gains for Euro 877 thousand in 2015.

The item refers to the Group's share of the result of the subsidiaries or companies under common control, valued with the equity method, which differ from those described in the paragraph “Portion of income / (expenses) from valuation of non-financial long-term investments using the equity method”.

8.8 Income taxes for the year

In the financial years ended at December 31, 2017, December 31, 2016 and December 31, 2015, income taxes for the year amount to 14,321 thousand, Euro 10,892 thousand and Euro 24,704 thousand respectively. A detailed breakdown is given below:

	For the years ended as at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
IRES	14,858	16,107	12,224
IRAP	3,680	3,856	5,013
Taxes from previous years	124	(246)	-
Current taxes	**18,662**	**19,717**	**17,237**
Deferred taxes	(3,356)	(3,185)	12,994
Prepaid taxes	(985)	(5,640)	(5,527)
Taxes for the year	**14,321**	**10,892**	**24,704**

The reconciliation between the tax expense recognised in the Consolidated Financial Statements for 2017 and the theoretical tax expense, determined on the basis of the theoretical tax rates in force in Italy, is as follows:

	For the year ended as at December 31, 2017
Income before taxes	30,764
Theoretical tax rate	24%
Theoretical tax	**7,383**
Impact of impairment of deferred tax assets	418
Reversal of deferred tax assets on risk provisions relating to Andali guarantees	635
Impact of IRAP	3,680
Impact of capital gains taxes on sale of investments	393
Prepaid taxes not recognised under tax losses for Cavriglia and Tegolaia	550
Taxes from previous years	124
Other permanent changes	1,138
Total	***6,937***
Effective taxes	**14,321**

The Group opted for the taxation system, called the National Tax Consolidation Plan (Consolidato Fiscale Nazionale), whose rules are contained in Articles 117 to 129 of the D.P.R. no. 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 utilized surplus.

The scope of the consolidated tax plan includes the following companies of which the Group owns more than 50%: ETA3 S.p.A., Solgenera S.r.l., Estra Clima S.r.l., Estra Elettricità S.p.A., Centria S.r.l., Estra Energie S.r.l, Gergas S.p.A. and Estracom S.p.A..

Deferred taxes as at December 31, 2015 refer principally to capital gains deriving from the sale of the gas distribution plant in the Municipality of Prato.

8.9 Net result of discontinued operations

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, the net result of discontinued operations amount to Euro 377 thousand, Euro 2,000 thousand and Euro 1,057 thousand respectively.

The Group has designated as discontinued operations the Polish company Useneko, which operates in the gas distribution sector in Poland, and until the end of the 2016 financial year also its direct controlling company, Serenia S.r.l., in liquidation, incorporated into the Parent Company in the course of the 2017 financial year as a result of the divestment/sale of the two investee companies.

The subsidiary USENEKO is currently aiming to overcome the technical/legal difficulties encountered in recent years. In particular, in the last financial year these activities were aimed at overcoming the critical issues that emerged in some interventions to restore the network and in the contractual regularisation of certain rights of way.

These preparatory activities aimed at the sale of the company have prolonged the completion period of the sale beyond the time frames initially envisaged. The Group remains committed to resolving such issues in order to implement the company's divestiture programme.

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 the discontinued operations as at December 31, 2017 is Euro 2,255 thousand, after a net loss for the 2017 financial year of Euro 377 thousand, recognised in the item “Net losses from discontinued operations” in accordance with IFRS 5.

In the 2016 and 2015 financial years, the adjustment of net assets to the estimated realisable value resulted in a write-down of Euro 2,000 thousand and Euro 1,057 thousand respectively, recognised in the line Net losses from discontinued operations.

8.10 Non-recurring items and/or unusual significant transactions

The Income Statement for 2015 was affected by non-recurring items, pursuant to CONSOB Resolution no. 15519 of July 27, 2006. In particular, non-recurring items included capital gains from the sale of the gas distribution plant in the Municipality of Prato, recognised under the item “Other income” for Euro 54,911 thousand, as well as provisions for risks and charges recognised in the item “Other operating expenses” for Euro 3,370 thousand and those related to the dispute between the counterparties of the sale regarding the recognised price.

It is noted that Euro 1,000 thousand of this provision (originally for a total of Euro 3,370 thousand) was released in 2017 due to the developments of the dispute. For more details on the dispute related to the sale of the gas distribution plant in Prato, refer to Note 10.4.1.1 “Main current litigations”.

9. Commentary on the main items of the Consolidated Statement of Comprehensive Income

9.1 Change in cash flow hedge reserve

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, the change in cash flow hedge reserve was up by Euro 164 thousand, Euro 67 thousand and Euro 298 thousand respectively. This item represents the component of the overall result that includes the change in the “Cash flow hedge reserve” recognised for the effective portion of IRS hedging derivatives.

9.2 Actuarial gains (losses)

In the financial year ending at December 31, 2017, actuarial gains amount to Euro 82 thousand. As at December 31, 2016, actuarial losses were Euro 175 thousand, while for the financial year ending at December 31, 2015 actuarial gains were Euro 397 thousand.
This item represents the component of the total result that reflects the change in the “IAS 19 Reserve”, recognised for actuarial gains and losses arising from changes in actuarial assumptions in the evaluation of leaving indemnity payments, in accordance with IAS 19.

9.3 Other comprehensive income related to investments accounted for using the equity method

In the financial year ending at December 31, 2017, other components of comprehensive income relating to investments valued using the equity method amounted to gains of Euro 131 thousand. In the financial years ending at December 31, 2016 and December 31, 2015, other components of comprehensive income relating to investments valued used the equity method amounted to losses of Euro 90 thousand and gains of Euro 126 thousand respectively.
The item represents the component of the comprehensive result which includes the change in the “cash flow hedge reserve” of the financial statements of associates or jointly controlled companies valued using the equity method.

10. Commentary on the main items of the Consolidated Statement of Financial Position

10.1 NON-CURRENT ASSETS

10.1.1 Tangible assets

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, tangible assets amount to Euro 82,033 thousand, Euro 47,882 thousand and Euro 46,595 thousand respectively.

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Land and buildings	4,954	4,607	4,796
Plants and machinery	67,757	33,566	34,481
Industrial and commercial equipment	435	441	501
Other assets	5,940	5,212	4,568
Assets under construction and payments on account	2,947	4,056	2,249
Tangible assets	**82,033**	**47,882**	**46,595**

Tangible assets mainly refer to the following investment activities:

- a wood biomass cogeneration plant and the relative district heating network in the Municipality of Calenzano;
- plants and machinery relating to the electronic and telecommunications systems deriving from the activities of Estracom S.p.A.;
- a trigeneration plant located in the Municipality of Sesto Fiorentino, owned by the subsidiary Estraclima S.r.l.;
- cogeneration plants, owned or leased, accounted according to the financial method pursuant to IAS 17.

In the financial year ending at December 31, 2017, the item recorded the following changes:

in thousands of Euro	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost or valuation						
As at January 1, 2017	**6,832**	**47,593**	**2,557**	**21,087**	**4,134**	**82,203**
Increases	25	2,429	98	1,590	911	5,054
Sales/Disposals		(970)	(8)	(577)		(1,555)
Reclassification		1,459		639	(2,098)	
Acquisition of a subsidiary		49,539		163		49,701
Transfers	750	8		115		873
Business disposals	(239)					(239)
Impairment		(1,723)				(1,723)
As at December 31, 2017	**7,368**	**98,335**	**2,647**	**23,017**	**2,947**	**134,314**
Amortisation/depreciation						
As at January 1, 2017	**(2,225)**	**(14,028)**	**(2,116)**	**(15,953)**		**(34,322)**
Amortisation/depreciation for the year	(190)	(3,159)	(103)	(1,511)		(4,964)
Sales/Disposals		546	7	573		1,126
Acquisition of a subsidiary		(13,931)		(128)		(14,058)
Transfers		(5)		(59)		(64)
Business disposals						
As at December 31, 2017	**(2,415)**	**(30,577)**	**(2,212)**	**(17,077)**		**(52,281)**
Net book value						
As at December 31, 2016	4,607	33,566	441	5,134	4,134	47,882
As at December 31, 2017	4,954	67,757	435	5,940	2,947	82,033

In 2017, the following elements are of particular interest:

- net increases related to the acquisition of subsidiaries for Euro 35,643 thousand, relating to the acquisition and consolidation of Cavriglia SPV S.p.A. for Euro 23,554 thousand and Tegolaia SPV S.p.A. for Euro 11,864 thousand, companies operating in the sector of photovoltaic systems;

- investments for the year of Euro 5,054 thousand, mainly referable to (i) "Plants and Machinery" for a total of Euro 2,429 thousand, which predominantly relate to plants and machinery for the realisation of telecommunications systems; (ii) "Other Assets" for a total of Euro 1,590 thousand, which predominantly relate to office machinery and furniture; and (iii) "Assets under construction and payments on account" for a total of Euro 911 thousand, predominantly related to ongoing telephony projects and the realisation of video surveillance systems, the consolidation of the telephony network and the installation of fibre optic connections;

- disposals for a net value of Euro 429 thousand, mainly related to telecommunications systems;

- transfer of assets for a net value of Euro 809 thousand, relating to the increase in the share capital of Estra underwritten by Multiservizi;

- amortisation/depreciation for the year for Euro 4,964 thousand;

- impairments of Euro 1,723 relating to the district heating network in Sesto Fiorentino, as described in the note below.

In the financial year ending at December 31, 2016, the item recorded the following changes:

in thousands of Euro	**Land and buildings**	**Plant and machinery**	**Industrial and commercial equipment**	**Other assets**	**Assets under construction and payments on account**	**Total**
Cost or valuation						
As at January 1, 2016	**6,832**	**46,349**	**2,525**	**19,979**	**2,249**	**77,934**
Increases	1	763	59	1,188	2,797	4,809
Sales/Disposals	(1)	(374)	(37)	(948)	(8)	(1,369)
Reclassification		201		703	(904)	
Acquisition of a subsidiary			10	164		174
Transfers		3,237				3,237
Impairment		(2,582)				(2,582)
As at December 31, 2016	**6,832**	**47,593**	**2,557**	**21,087**	**4,134**	**82,203**
Amortisation/depreciation						
As at January 1, 2016	**(2,036)**	**(11,868)**	**(2,025)**	**(15,411)**		**(31,340)**
Amortisation/depreciation for the year	(190)	(2,284)	(115)	(1,355)		(3,944)
Sales/Disposals	1	125	25	928		1,078
Reclassification						
Acquisition of a subsidiary			(1)	(114)		(115)
As at December 31, 2016	**(2,225)**	**(14,028)**	**(2,116)**	**(15,953)**		**(34,322)**
Net book value						
As at December 31, 2015	4,796	34,481	501	4,568	2,249	46,594
As at December 31, 2016	4,607	33,566	441	5,134	4,134	47,882

In 2016, the following elements are of particular interest:

- investments for the year of Euro 4,809 thousand, mainly recognised under (i) “Other assets” for a total of Euro 1,188 thousand, which relate to office machinery and furniture; and (ii) “Assets under construction and payments on account” for a total of Euro 2,797 thousand, predominantly related to ongoing telephony projects and the realisation of video surveillance systems, the consolidation of the telephony network and the installation of fibre optic connections;

- transfer of 12 photovoltaic systems by Nova E S.r.l. (company under joint control valued using the equity method in 2015) to Solgenera Tre S.r.l. for Euro 3,237 and following the departure of Estra from the shareholder structure of Nova E S.r.l.;

- amortisation/depreciation for the year for Euro 3,944 thousand;

- impairments of Euro 2,582 in relation to the biomass cogeneration plant in the Municipality of Calenzano, as described in the Note below.

In the financial year ending at December 31, 2015, the item recorded the following changes:

in thousands of Euro	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Cost or valuation						
As at January 1, 2015	**6,833**	**46,605**	**2,622**	**18,339**	**2,214**	**76,613**
Increases	3	830	36	1,764	506	3,139
Sales/Disposals	(4)	(1,090)	(42)	(729)		(1,865)
Reclassification			(91)	562	(471)	
Acquisition of a subsidiary		4		43		47
Write-off						
As at December 31, 2015	**6,832**	**46,349**	**2,525**	**19,979**	**2,249**	**77,934**
Amortisation/depreciation						
As at January 1, 2015	**(1,847)**	**(10,141)**	**(2,396)**	**(14,701)**		**(29,085)**
Amortisation/depreciation for the year	(193)	(2,123)	(398)	(1,022)		(3,736)
Sales/Disposals	4	400	691	428		1,523
Reclassification			78	(78)		
Acquisition of a subsidiary		(4)		(38)		(42)
As at December 31, 2015	**(2,036)**	**(11,868)**	**(2,025)**	**(15,411)**		**(31,340)**
Net book value						
As at December 31, 2014	4,986	36,464	226	3,638	2,214	47,528
As at December 31, 2015	4,796	34,481	500	4,568	2,249	46,594

In 2015, the following elements are of particular interest:

- investments for the year of Euro 3,139 thousand, mainly related to (i) “Plants and machinery” for a total of Euro 830 thousand, predominantly relating to the telephony sector such as video surveillance systems, the consolidation of the telephony network and the installation of fibre optic connections and (ii) “Other assets” for a total of Euro 1,764 relating to office machinery and furniture;

- amortisation/depreciation for the year of Euro 3,736 thousand.

10.1.2 Impairment testing on tangible assets according to IAS 36

Year ended at December 31, 2017

The Directors identified impairment indicators referring to the Sesto Fiorentino district heating network, recorded at a net book value of **Euro 3,545** thousand as at December 31, 2017 before the impairment, as a result of operating results lower than expected, mainly as a consequence of less significant urban development and, consequently, fewer residential units than those envisaged. The heating network relates to the "Heat management services" included under "Other operating segment".

The impairment test consisted in 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.
Value in use refers to the actual value of estimated future cash flows, which derive from the continuous use of the fixed asset and the disposal of the same at the end of its useful life. The value in use was determined using the financial method (Discounted Cash Flow), which estimates future cash flows and their recalculation on the basis of an appropriate discounting rate.
The cash flow estimates reflect the best estimates of the Estra management regarding the main assumptions based on plant operations for the period 2018-2032 (residential units, production and sale of thermal and cooling energy, maintenance costs, network extension investments and sales tariffs). Cash flow from disposal at the end of useful life (final value) was estimated at Euro 460 thousand on the basis of the prospective value of tangible fixed assets at the end of the plan.
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 flows considered, by determining the average cost of capital (WACC) after taxation at 5%. At the completion of these analyses, the Directors recorded a loss of Euro 1,723 thousand during the year, against a book value, after amortisation for the period and net of contributions of Euro 3,545 thousand at December 31, 2017, recorded in the Statement of Income under the item "Impairment of tangible fixed assets". The net asset value amounts to Euro 1,822 thousand as at December 31, 2017 following impairment.
The calculation of the value in use of the plant 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.

Year ended at December 31, 2016

The 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 as at December 31, 2016, following operating results which were lower than plan estimates mainly due to the need to review the estimated maintenance costs necessary for proper operation of the plant. The heating network is part of the operating segment relative to "Heat management services" and is included under "Other operating segments".

The impairment test consisted in 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.
Value in use refers to the actual value of estimated future cash flows, which derive from the continuous use of the fixed asset and the disposal of the same at the end of its useful life. The value in use was determined using the financial method (Discounted Cash Flow), which estimates future cash flows and their recalculation on the basis of an appropriate discounting rate.
The cash flow estimates reflect the best estimates of the Estra management regarding the main assumptions on the basis of plant operations for the period 2017-2030 (incentives, production and sale of electricity, biomass prices, maintenance costs and 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 flows considered, by determining the average cost of capital (WACC) after taxation at 5.5%. At the completion of these analyses, the Directors recorded a loss of Euro 2,582 thousand during the year, against a book value of Euro 8,215, at December 31, 2016, after amortisation for the period and net of contributions, recorded in the Income Statement under the item "Impairment of tangible fixed assets".
The calculation of the value in use of the plant 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.

10.1.3 Goodwill

Goodwill recorded in the Consolidated Financial Statements as at December 31, 2017 (and December 31, 2016 and December 31, 2015) refers to the following business combinations prior to the FTA date and for which the Group has exercised the option to not retrospectively apply IFRS 3:

- goodwill recognised as a consequence of the acquisition of Gergas S.p.A. relative to the CGU "Gergas Gas Distribution" (Euro 1,369 thousand);
- goodwill recognised by the transfers of the gas customer management business units by Consiag S.p.A., Intesacom S.p.A. and Coingas S.p.A.; purchase against payment of the business units 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. relative to the CGU "Gas and electricity sales" (Euro 10,687 thousand).

The Group carried out impairment testing at December 31, 2017, December 31, 2016 and December 31, 2015; the impairments tests did not detect any impairment losses as described in the following paragraph.

10.1.4 Impairment testing on goodwill according to IAS 36

Goodwill acquired through business combinations has been allocated in order to verify the impairment of the cash generating units "Gas and Electricity Sales" and "Gergas Gas Distribution":

Book value of goodwill allocated to each CGU:

	Gas and electricity sales			Gas distribution (Gergas)			Total		
	2017	**2016**	**2015**	**2016**	**2016**	**2015**	**2017**	**2016**	**2015**
Goodwill	10,687	10,687	10,687	1,369	1,369	1,369	12,056	12,056	12,056

The impairment test of the Group was carried out on December 31, 2017, 2016 and 2015.

Gas and electricity sales

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 most recent Business Plans available at the measurement date and approved by Company Management (the Business Plan for the period 2018-2020 for the impairment test as at December 31, 2017) were used. The discount rate applied to the projected cash flows, net of taxes, was 5.3% in 2017 (5.4% in 2016). Cash flows were extrapolated using a growth rate of 1.5% in 2017 (1.5% in 2016), the assumed average long-term growth rate for gas and electricity sales. At the completion of these analyses, the Directors did not recognise any impairment attributed to the net assets of the CGU "Gas and electricity sales", including the goodwill of Euro 10,687 thousand.

Significant assumptions used in the calculation of the value and use and sensitivity to changes in assumptions

The calculation of the value in use of the CGU "Gas and Electricity Sales" is particularly sensitive to the following factors:

- 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 preceding the beginning of the Plan period, conservatively assuming marginal increases linked to efficiency gains. The increase in raw material costs or the non-achievement of efficiency targets could lead to a reduction in margins compared to those envisaged in the plan.

Market share assumptions - The Management expects the market share in the Gas and Electricity Sales segment to grow in the period of the Plan, thanks in part to the commercial investments planned for the purposes of attracting and retaining new clients. The Management acknowledges that the possible introduction of new player to the market and/or increased competition in the segment 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 segment 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. Industry-specific risk is considered with the application of 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 focused on the margins of the CGU, assuming a 5% decrease, resulting in a reduction in the cash flows developed during the plan and in subsequent years, and a 5% increase in WACC.

The obtained values are also in such cases higher than the carrying amounts of the CGUs, so the analysis further confirmed the carrying value of the CGU gas and electricity sales.

Gas distribution (Gergas)

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 CGU Gergas Gas Distribution. However, in consideration of the uncertainties that still weigh on the time frames for the call for tender for the renewal of gas distribution concessions/assignments, the Directors have decided to subject the goodwill to impairment tests by comparing the carrying value of the gas distribution assets with the fair value net of sales costs (Residual Industrial Value - VIR).

For this purpose, an independent expert has been appointed to estimate the residual industrial value of the plants (VIR), to be used as a reference value for determining the right to indemnity/repayment for networks where, as a result of the tenders that will be initiated for the assignment of concessions, the Group will lose 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 analyses, the directors did not disclose any impairments of the book value of the net assets of the Gas Distribution Unit Gergas, including goodwill of Euro 1,369 thousand.

10.1.5 Intangible assets

In the financial years ending at December 31, 2017, December 31, 2016 and December31, 2015, intangible assets amount to Euro 352,277 thousand, Euro 336,722 thousand and Euro 250,874 thousand respectively.

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Concessions, licenses, trademarks	4,462	4,913	3,929
Assets under concession	231,222	218,598	215,728
Customer lists	109,761	96,039	18,022
Other intangible assets	6,470	15,155	11,344
Intangible assets in progress	363	2,017	1,851
Intangible assets	**352,277**	**336,722**	**250,874**

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

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

The natural gas distribution service was assigned by public tender and relates not to individual Municipalities but to "Minimum Territorial Ambit" (ATEM). As such, Municipalities may not autonomously assign services contracts through individual tenders.

However, prior to the adoption of Legislative Decree no. 164/2000 ("Letta Decree"), the gas distribution service was awarded by direct assignment by each individual Municipality. Furthermore, following the adoption of Legislative Decree no. 164/2000 and until the issue of the related implementing decrees, the natural gas distribution service was awarded by public tender by each individual Municipality. Therefore, to date a number of concessions awarded to the Group directly or by public tender by individual Municipalities are still in effect.

At the expiry of such concessions, the duration of the concessionary agreement is considered extended until such time as a new tender is offered. During this extension period, the agreements in place between the grantor and the concessionaire remain valid; the concessionaire is obliged to continue to manage the service, exclusively in terms of ordinary management, until the commencement date of the new assignment. Furthermore, the outgoing operator must fulfil all obligations deriving from the concession, including the payment of concession fees owed to the grantor.

In the case that the Group will not award the new tender for the provision of services after the extension period, the new operator must pay to the Group, as the outgoing operator, a sum of money for the transfer of the distribution networks from the outgoing operator to the incoming concessionaire. This sum is determined on the basis of the provisions of the concession agreement. In the absence of a specific provision (or certain other elements), the contractual provisions are supplemented by the Guidelines provided by Ministerial Decree no. 226/11.

In relation to the above, it should be noted that the technical valuation appraisals identified an Industrial Value (VIR) of networks, plants, connections and other capital assets related to gas distribution and recognised under the item “Assets under concession” that was substantially higher than the net book value of the Consolidated Financial Statements.

The item “Customer Lists” mainly accounts for the Purchase Price Allocation (PPA) of the client portfolios of subsidiaries acquired through the business combinations carried out by the Group from the 2015 financial year. The item is amortised for an amortisation period relating to the useful life of the Customer Lists, which is recalculated at least once a year at the end of each financial year based on historic and expected client turnover (“Churn Rate”). In the financial years ending at December 31, 2015 and December 31, 2016, the Customer Lists were amortised over a period of 15 years. In 2017, based on the experienced accrued in relation to the acquisition of new customers and the analysis of the customer switch-out from year of acquisition to the closing financial year, corroborated by external sources, lower switch-out rates to those previously adopted and supported by external sources such as the “Annual Report on the Status of Services and Performed Activities” were detected. Consequently, the time period considered for the purposes of amortising the Customer Lists was revised to 20 years starting from the 2017 financial year. The change in estimate was applied in a prospective manner, reallocating the net book value of intangible assets as at January 1, 2017 across the new residual life. The impact of the revised amortisation period on the Income Statement for 2017 was represented by lower amortisations for Euro 1,486 thousand (before tax).

The item “Other intangible assets” mainly relates to the costs of customer acquisition (contract cost) sustained by the Group's commercial companies and amortised in decreasing increments over 5 years.

The item “Intangible assets in progress” for the years 2016 and 2015 mainly refers to costs for works and preliminary works for the construction of the wind farm at Andali (CZ) sustained at the end of the financial year by the subsidiary Andali Energia S.r.l. It is noted that the company was sold in the 2017 financial year; for more details refer to Note 7. “Business combinations and disposals of assets, and acquisitions and disposals of non-controlling interests”

The Group annually checks for the presence of impairment indicators; in particular, as regards Customer Lists and Contract Costs such activities aim to identify the annual churn rate recorded for each gas and electricity sales company. The churn rate, also known as the attrition rate, is an indicator used to measure the percentage rate at which clients leave a service in a certain period of time (switch-out) compared to the total number of clients using the service.

In view of the above, at the end of the 2017 financial year no long-term impairment indicators on the value of intangible assets with fixed useful lives were detected.

In the financial year ending at December 31, 2017, the item recorded the following changes:

in thousands of Euro	**Concessions, licenses, trademarks**	**Assets under concession**	**Users**	**Other intangible assets**	**Current intangible assets**	**Total**
Cost or valuation						
As at January 1, 2017	**32,447**	**343,862**	**102,595**	**25,677**	**2,017**	**506,598**
Increases	3,280	11,887	67	4,819	488	20,541
Sales/Disposals	(27)	(2,102)		(14,188)		(16,318)
Reclassification	9				(9)	
Acquisition of a subsidiary			19,926	61		19,987
Transfers	301	19,913		71		20,285
Business disposals				(796)	(2,133)	(2,929)
Write-off	(21)					(21)
As at December 31, 2017	**35,988**	**373,560**	**122,589**	**15,643**	**363**	**548,143**
Amortisation, depreciation and impairment						
As at January 1, 2017	**(27,533)**	**(125,264)**	**(6,556)**	**(10,522)**		**(169,875)**
Amortisation/depreciation for the year	(3,914)	(9,262)	(6,271)	(7,029)		(26,477)
Sales/Disposals		1,380		8,350		9,730
Acquisition of a subsidiary				(44)		(44)
Transfers	(79)	(9,192)		(2)		(9,273)
Business disposals				73		73
As at December 31, 2017	**(31,526)**	**(142,338)**	**(12,827)**	**(9,174)**		**(195,866)**
Net book value						
As at December 31, 2016	4,913	218,598	96,039	15,155	2,017	336,722
As at December 31, 2017	4,462	231,222	109,761	6,470	363	352,277

In 2017, the following elements are of particular interest:

- investments for the year of Euro 20,541 thousand, mainly referring to:
  - "Assets under concession" for a total of Euro 11,887 thousand relating investments in gas distribution networks;
  - "Concessions, licenses, trademarks" for a total of Euro 3,280 thousand, predominantly related to software costs;
  - "Other intangible fixed assets" for a total of Euro 4,819 thousand, principally related to customer acquisition costs sustained by the Group's gas and electricity sales companies.

- increases from the company acquisitions of Piceno Gas Vendita S.r.l. and Verducci S.r.l. for Euro 19,943 thousand, as described in the "Business combinations and acquisition of non-controlling interests" Note. In particular, in the 2017 financial year the Group acquired holdings of 100% of Piceno Vendita Gas, whose consolidation resulted in increases in intangible assets for a total of Euro 18,212 thousand (mainly related to the acquisition of Customer Lists, equal to Euro 18,196) and a 100% of Verducci S.r.l., whose consolidation resulted in increases in intangible assets for a total of Euro 1,731 thousand, also represented by the acquisition of Customer Lists;

- sales/disposals for Euro 6,588 thousand, mainly relating to the transfer of approximately 11,000 gas contracts and 25,000 electricity contracts to Canarbino S.r.l. as part of the acquisition of 40% of Estra Elettricità S.p.A. by Estra Energie S.r.l., as described in the paragraph "Acquisitions of additional interests in existing subsidiaries";

- amortisation/depreciation for the year for Euro 26,477 thousand;

- business disposals for Euro 2,856 thousand in relation to the deconsolidation of Andali Energia S.r.l.;

- contributions of Euro 11,012 thousand in relation to the transfer to Centria S.r.l. by Energia Offida S.r.l. of assets under concession for a total of Euro 1,212 thousand, the consolidation of EDMA S.r.l. and TuArete S.r.l. for Euro 9,801 thousand (of which Euro 9,509 related to assets under concession) and the increase in share capital of Estra by Multiservizi S.r.l. for software licences for a total of Euro 99 thousand. Refer to the paragraph "Business combinations and disposals of assets, and acquisition and disposal of non-controlling interests".

In the financial year ending at December 31, 2016, the item recorded the following changes:

in thousands of Euro	**Concessions, licenses, trademarks**	**Assets under concession**	**Users**	**Other intangible assets**	**Current intangible assets**	**Total**
Cost or valuation						
As at January 1, 2016	**27,078**	**31333,670**	**18,563**	**14,420**	**1,851**	**395,582**
Increases	4,263	12,574	207	10,530	166	27,740
Sales/Disposals	(107)	(2,381)				(2,488)
Reclassification						
Acquisition of a subsidiary	1,213		83,825	726		85,764
As at December 31, 2016	**32,447**	**343,862**	**102,595**	**25,677**	**2,017**	**506,598**
Amortisation, depreciation and impairment						
As at January 1, 2016	**(23,149)**	**(117,941)**	**(541)**	**(3,076)**		**(144,707)**
Amortisation/depreciation for the year	(4,384)	(8,659)	(5,803)	(7,416)		(26,262)
Sales/Disposals		1,335				1,335
Acquisition of a subsidiary			(212)	(29)		(241)
As at December 31, 2016	**(27,533)**	**(125,264)**	**(6,556)**	**(10,522)**		**(169,875)**
Net book value						
As at December 31, 2015	3,929	215,729	18,022	11,344	1,851	250,875
As at December 31, 2016	4,913	218,598	96,039	15,155	2,017	336,722

In 2016, the following elements are of particular interest:

- investments for the year of Euro 27,740 thousand;
- increases from the company acquisitions of Coopgas S.r.l. and Prometeo S.p.A. for Euro 85,764 thousand, as described in the Business combinations and acquisition of non-controlling interests Note;
- amortisation/depreciation for the year of Euro 26,262 thousand.

With reference to the year ending at December 31, 2016, investments in Intangible assets amount to a total of Euro 27,740 thousand, referring predominantly to:

- "Concessions, licenses, trademarks" for a total of Euro 4,263 thousand, predominantly related to software costs;
- "Assets under concession" for a total of Euro 12,574 thousand relating investments in gas distribution networks;
- "Other intangible fixed assets" for a total of Euro 10,530 thousand, principally related to customer acquisition costs sustained by the Group's gas and electricity sales companies;

In the 2016 financial year, the Group acquired (I) 59.59% of Prometeo, a company operating in the sale of gas and electricity, which led to increases in intangible assets for a total of Euro 69,040 thousand (mainly related to the acquisition of Customer Lists for Euro 67,146 thousand) and (ii) a 100% holding in the gas and electricity sales company Coopgas S.r.l., which led to the increase in intangible assets for a total of Euro 16,483 thousand (mainly related to the acquisition of Customer Lists for Euro 16,467 thousand).

In the financial year ending at December 31, 2015, the item recorded the following changes:

in thousands of Euro	**Concessions, licenses, trademarks**	**Assets under concession**	**Users**	**Other intangible assets**	**Current intangible assets**	**Total**
Cost or valuation						
As at January 1, 2015	**23,564**	**375,502**		**9,762**	**3,875**	**412,703**
Increases	3,616	9,754		11,846		25,216
Sales/Disposals		(51,586)				(52,220)
Reclassification	122			(122)		
Acquisition of a subsidiary	23		18,563			18,586
Other changes	(7)				(26)	(33)
Impairment	(240)			(7,066)	(1,998)	(9,304)
As at December 31, 2015	**27,078**	**333,670**	**18,563**	**14,420**	**1,851**	**395,582**
Amortisation						
As at January 1, 2015	**(19,652)**	**(130,521)**		**(1,013)**		**(151,186)**
Amortisation/depreciation for the year	(3,461)	(9,156)	(541)	(2,060)		(15,218)
Sales/Disposals		21,736				22,370
Acquisition of a subsidiary	(36)			(3)		(39)
As at December 31, 2015	**(23,149)**	**(117,941)**	**(541)**	**(3,076)**		**(144,707)**
Net book value						
As at December 31, 2014	3,912	244,981		8,749	3,875	261,517
As at December 31, 2015	3,929	215,729	18,022	11,344	1,851	250,875

In 2015, the following elements are of particular interest:

- investments for the year of Euro 25,216 thousand;
- increases from the business combinations of VEA Energia Ambiente S.r.l. and Gas Tronto S.r.l. for Euro 18,547 thousand, as described in "Business combinations and acquisition of non-controlling interests" Note;
- amortisation/depreciation for the year for Euro 15,218 thousand;
- Disposal of intangible fixed assets, predominantly related to the transfer to Toscano Energia of the gas distribution networks and plants in the Municipality of Prato;
- Impairments of fixed assets for Euro 9,304 thousand, predominantly related to the impairment of the authorisation and the planning and development costs of the wind farm currently under construction by the subsidiary Andali Energia S.r.l..

With reference to the year ending at December 31, 2015, investments in Intangible assets amount to a total of Euro 25,216 thousand, referring predominantly to:

- "Concessions, licenses, trademarks" for a total of Euro 3,616 thousand, predominantly related to third-party software license fees;
- "Assets under concession" for a total of Euro 9,754 thousand relating investments in gas distribution networks;
- "Other intangible fixed assets" for a total of Euro 11,846 thousand, principally related to customer acquisition costs sustained by the Group's gas and electricity sales companies.

In the 2015 financial year, the Group acquired (i) 100% of VEA Energia Ambiente S.r.l., a company operating in the commercialisation of gas and electricity in the province of Lucca, which led to increases in intangible assets for a total of Euro 8,140 thousand (mainly related to the acquisition of Customer Lists for Euro 8,117 thousand) and (ii) 79.95% of the share capital of Gas Tronto S.r.l., a gas sales company with registered offices in Spinetoli, which led to the increase in intangible assets for a total of Euro 10,448 thousand (mainly related to the acquisition of Customer Lists for Euro 10,447 thousand).

10.1.6 Investments

In the financial years ending at December 31, 2017 and December 31, 2016, Investments amount to Euro 29,523 thousand and Euro 36,229 thousand respectively.

Investments (values in thousands of Euro)	As at December 31, 2016	Other changes	Increase/(Decrease)	Re-evaluation/(write-down)	As at December 31, 2017
Idrogenera S.r.l.	8			-	8
EDMA Reti Gas S.r.l.		9,951		(349)	9,603
EDMA S.r.l.	20,964	(21,537)		573	-
Nuova Sirio S.r.l.	46			(27)	19
Investments in companies under common control	**21,018**	**(11,586)**	**-**	**198**	**9,630**
Blugas Infrastrutture S.r.l.	7,238			283	7,521
Piceno Gas Vendita S.r.l.	6,382	(6,382)			-
Cavriglia SPV S.p.A.	217	(217)			-
AES Fano		188			188
Sinergie Italiane S.r.l.	-				-
Roma Oil S.r.l.	67		(67)		-
Monte Urano S.r.l.	1,071				1,071
Sangro Servizi S.r.l.			1,823		1,823
Gas Marca S.r.l.			5,906		5,906
SIG S.r.l.		3,184			3,184
Tegolaia SPV S.p.A.	37	(37)			-
Investments in associates	**15,012**	**(3,264)**	**7,662**	**283**	**19,694**
Other companies	8				8
Casole Energie S.r.l.	191				191
Investments in other companies	**199**	**-**	**-**	**-**	**199**
Total investments	**36,229**	**(14,850)**	**7,662**	**481**	**29,523**

The shareholding in EDMA Reti Gas S.r.l. was acquired by the Group at a value of Euro 9,951 thousand, following the reduction in the share capital of EDMA through the allocation of 45% and 55% of the shareholding held by the latter to beneficiaries Estra and Multiservizi respectively, as described in the comments of Phase 1b) in the paragraph “Share Capital Increase reserved to Multizervizi S.p.A.”. The shareholding was reduced by Euro 349 thousand due to application of the equity method as at December 31, 2017.

The investment in EDMA S.r.l., equal to Euro 20,964 thousand as at December 31 2016, was increased by Euro 573 thousand to reflect the share of the results following application of the equity method. The investment was adjusted by Euro 21,537 thousand as a result of its full consolidation as at December 31, 2017 following the transfer by Multiservizi of its 55% stake with the acquisition by Estra of 100% of the company shares. Refer to the comments of Phase 2) in the paragraph “Increase in Share Capital reserved to Multiservizi S.p.A”.

In reference to the shareholding in Blugas Infrastrutture S.r.l., refer to the information provided below.

The shareholdings in Piceno Gas Vendita S.r.l., Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A., valued according to the equity method as at December 31, 2016, were fully consolidated as at December 31, 2017 following the acquisition of the residual non-controlling interests are described in the paragraphs “Acquisition of control of Piceno Gas Vendita S.r.l.” and “Acquisition of control of Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A.”.

The shareholdings in SIG S.r.l. and AES Fano S.r.l, which had an insignificant impact in 2017, derive from the full consolidation of EDMA S.r.l. in the 2017 financial year, as described in the paragraph "Increase in Share Capital reserved to Multiservizi S.p.A.".

The shareholding in Sangro Servizi S.r.l., which represents 49% of the share capital, arises from the acquisition by Coopgas S.r.l. completed in March 2017 following the tender procedure. The shareholding is recognised at the price paid for the acquisition of the company shares. The tender is currently pending appeal by Hera Comm, as described in the paragraph 10.4.1.1 Main current litigations

The shareholding in Gas Marca S.r.l., which represents 49% of the share capital, arises from the acquisition by Estra Energie S.r.l. completed in January 2017. The sales agreement for 49% of Gas Marca also serves as a preliminary sales agreement for 51% of the share capital in Gas Marca as the deed entitles the seller (ATAC), and obligates Estra, to proceed with the sale/acquisition of the residual stake of 51% of the share capital of Gas Marca at a price of Euro 6,394 thousand (as identified during the tender procedure) by the end of the fifth year from January 18, 2017. The seller has the right to advance the sale of the 51% stake at any time. Given that the difference between the fair value of the 51% stake in Gas Marca and the fixed sales price of the 51% stake of Gas Marca at the time of acquisition is zero, the fair value valuation of the implied forward contract has no significant impacts on the Consolidated Financial Statements.

The stake in Gas Marca S.r.l. was valued with the equity method as at December 31, 2017; however, given that the entire profit of the company for the 2017 financial year remains with the seller, no revaluations have been carried out.

The stake in Sangro Servizi S.r.l. was maintained at the acquisition cost as at December 31, 2017, in view of the fact that as described in the paragraph "Appeal against the award of Coopgas S.r.l. under public tender submitted by the Municipality of Atessa for the sale of 49% of company shares in Sangro Servizi S.r.l.", the Group may be required to return the company shares to the assigned Municipalities, in which case the Municipalities shall in turn be required to return the amounts paid for the sale of the shares.

In reference to the shareholding in Sinergie Italiane S.r.l., refer to the information provided below.

Changes to other shareholdings are a result of the application of the equity method.

In the financial years ending at December 31, 2016 and December 31, 2015, investments amount to Euro 36,299 thousand and Euro 45,889 thousand respectively.

Investments **(values in thousands of Euro)**	**As at December 31, 2015**	**Other changes**	**Increase/(Decrease)**	**Re-evaluation /(write-down)**	**As at December 31, 2016**
Idrogenera S.r.l.	11			(3)	8
EDMA S.r.l.	37,107	(16,613)		470	20,964
Nuova Sirio S.r.l.	-	46			46
Investments in companies under common control	**37,118**	**(16,567)**	**-**	**467**	**21,018**
Blugas Infrastrutture S.r.l.	7,550			(312)	7,238
Piceno Gas Vendita S.r.l.	-		6,382		6,382
Cavriglia SPV S.p.A.	288	(16)		(55)	217
Sinergie Italiane S.r.l.	-				-
Roma Oil S.r.l.	45			22	67
Monte Urano S.r.l.	-		1,071		1,071
Tegolaia SPV S.p.A.	138	48		(149)	37
Montedil S.r.l.	750		(750)		0
Investments in associates	**8,771**	**32**	**6,703**	**(494)**	**15,012**
Other companies	-	8			8
Casole Energie S.r.l.	-	177		14	191
Investments in other companies	**-**	**185**	**-**	**14**	**199**
Total investments	**45,889**	**(16,350)**	**6,703**	**(13)**	**36,229**

The investment in EDMA S.r.l. decreased from 37,107 thousand to Euro 20,964 thousand, principally as a result of the acquisition of control of Prometeo S.p.A. in 2016.

A series of transactions followed: Prometeo S.p.A. (and its subsidiary Marche Energie) transferred from being a subsidiary of EMDA (a company under joint control and valued with the equity method) to being a subsidiary of Estra Energie S.r.l. (a subsidiary of Estra), therefore entering into the scope of fully consolidated companies with a percentage ownership of the Group of 47.40%, while EDMA increased its shareholding in Estra Energie from 21.15% to 24.47%.

The shareholding in Nuova Sirio S.r.l. derives from the demerger of a business unit of Nova E S.r.l. relating to the ownership and management of three photovoltaic plants.

The shareholdings in Piceno Gas S.r.l. and Monte Urano S.r.l. of 45% and 49% respectively arise from acquisitions completed in the year.

The shareholding in Montedil S.r.l. which corresponded to 32.25% of the share capital, was disposed of in the course of 2016.

The shareholding of 15% of the share capital of Casole Energie S.r.l. arises from the transfer of Nova S.r.l. prior to the departure of Estra from its shareholding structure.

Changes to other shareholdings, such as those in Blugas Infrastrutture S.r.l., are a result of the application of the equity method.

In the financial years ending at December 31, 2015 and December 31, 2014, investments amount to Euro 45,889 thousand and Euro 36,229 thousand respectively.

Investments (values in thousands of Euro)	As at December 31, 2014	Other changes	Increase/(Decrease)	Re-evaluation/(write-down)	As at December 31, 2015
Idrogenera S.r.l.	2		15	(6)	11
EDMA S.r.l.	27,424		8,610	1,073	37,107
Investments in companies under common control	**27,426**	**-**	**8,625**	**1,067**	**37,118**
Blugas Infrastrutture S.r.l.	7,550				7,550
Cavriglia SPV S.p.A.	3		224	61	288
Cavriglia O&M S.c.a.r.l.	5		(5)		-
Sinergie Italiane S.r.l.	-				-
Roma Oil S.r.l.	45				45
Tegolaia SPV S.p.A.	16		182	(60)	138
Montedil S.r.l.	-		750		750
Investments in associates	**7,619**	**-**	**1,151**	**1**	**8,771**
Total investments	**35,045**	**-**	**9,776**	**1,068**	**45,889**

The investee company Idrogenera S.r.l. recorded an increase in the year for Euro 15 thousand due to the conversion into capital of the loans issued by Estra and a negative adjustment for Euro 6 thousand in relation to the corresponding share of Shareholders' Equity.

The investment in EDMA recorded an increase of Euro 8,610 thousand due to the net impact of dividend distributions for a total of Euro 2,220 and a share capital increase of Euro 10,830 thousand. The investment was subject to a revaluation of Euro 1,073 thousand in recognition of the Group's share of the result for the 2015 financial year.

Investments in Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A. recorded an increase following the resolution by Shareholders to hedge the losses of 2014 by means of payment. The impairments and revaluations applied align the carrying value of equity investments with the corresponding share of Shareholders' Equity as at December 31, 2015, taking into account the impact of internal Group transactions.

The value of the shareholding in Cavriglia O&M S.c.a.r.l. was zero as at December 31, 2015 following the liquidation of the company in the 2015 financial year.

The shareholding in Montedil S.r.l., representing 31.25% of the share capital of the company, the owner of a wind generator for the generation of electricity from renewable sources, was acquired by Fonteolica S.r.l. on September 18, 2015.

Given that no indicators of long-term impairments were identified for all investments, no specific impairment tests were carried out.

With regard to Blugas Infrastrutture S.r.l., the investment is recorded at a carrying value of Euro 2,639, which is greater than the corresponding share of the Shareholders' Equity of the investee as at December 31, 2017, following the allocation of a higher purchase price relating to the company's assets, represented by:

- a 10% profit share in the project for the construction and operation of the storage facility at San Potito and Cotignola, in the province of Ravenna, with Edison Stoccaggio representing the main partner with a 90% share, following a special concession ("San Potito e Cotignola Stoccaggio") granted by the Ministry of Economic Development with the Ministerial Decree of 24/04/2009;
- ownership rights of 70 million cubic metres of natural gas to be extracted from the gas field at Abbadesse.

Concerning the San Potito e Cotignola Stoccaggio storage project, it should be noted that, following the discovery of a more complex geological situation than expected, Edison Stoccaggio was required to conduct a significant revision to the originally authorised project, with a consequent reduction in estimated storage capacity. Given this new scenario, with Resolution 66/2016 of February 25, 2016, AEEGSI (now ARERA) recalculated tariffs according to a new and disadvantageous mechanism of dubious legitimacy, in order to reduce the capex revenues of the site (calculated on the ratio of investments realised to earnings achieved). The new mechanism will be applied each year until completion of the site (scheduled for 2019), while providing for a partial adjustment of the lower revenues received, depending on the storage space provided by the concession when operational. Furthermore, with regards to 2015, on the basis of Resolution 531/2014/R/gas, the Authority subjected the recognition of certain revenue components (amortisations and incentives) to the site's entry into commercial service, namely the date upon which the site began to offer its storage services on the commercial market (2015); as a result, the recognition of such components is delayed by one year (from 2016 onwards).

In order to protect its interests, on April 20, 2016, Edison Stoccaggio contested Resolution no. 66/2016/R/gas through the submission of an extraordinary appeal to the President of the Republic; on May 26, 2016, with Resolution no. 257/2016/C/gas the Authority opposed the extraordinary appeal to the President of the Republic submitted by Edison Stoccaggio and ruled that the appeal be brought before at the Regional Administrative Court.

With Resolution 775/2017 issued in November 2017 and Resolution 855/2017 issued in December 2017, the revenues of the project were defined definitively for 2017 and provisionally for 2018, confirming, in implementation of Resolution 66/2016, the reduction in revenues relative to investments in the San Potito and Catignola project in relation to the capacity made available for the thermal year 2017-2018.

In line with the appeal submitted against Resolution 66/2016, Edison Stoccaggio is currently appealing the aforementioned resolutions.

Considering that the company considers its arguments behind the appeal to be valid, the estimates made on the impacts on revenues of the multi-year plan do not imply any indicators of long-term impairment taking into account both the positive financial outcomes and implied capital gains to the assets of the company; as such, no impairment of the investment or loan receivables has been applied.

Regarding the 11.05% holding in Sinergie Italiane Srl, it is noted that the company was liquidated with the Shareholders' Resolution of April 13, 2012. Previously, on March 29, 2012, the Shareholders' Meeting balanced the equity deficit of Euro 88.7 million and reconstituted the share capital of Euro 1 million by a cash injection of Euro 89.7 million.

During the 2017 financial year, the company continued its business, relating principally to the purchase of gas from the Russian supplier Gazprom Export LLC and resale to the subsidiary companies owned by Shareholders (Estra Energie S.r.l. for the shareholder Estra S.p.A). The company closed the interim balance sheet as at September 30, 2017, prepared in accordance with the provisions of Article 2490 of the Italian Civil Code, showing negative shareholders' equity of Euro 10.5 million (Euro 12.2 million at September 30, 2016) after liquidation adjustments of Euro 32.8 million and profit for the year of Euro 1.7 million. Given the positive outlook for the coming years, it is reasonable to predict a return to a balanced financial position due to by future profits such to fill the current deficit.

10.1.7 Other non-current financial assets

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, non-current financial assets amount to Euro 9,560 thousand, Euro 7,502 thousand and Euro 6,776 thousand respectively.

(values in thousands of Euro)	As at December 31, 2017	2016	2015
Loans to companies under joint control	407	5	1,270
Loans to associates	4,153	7,497	5,506
Other receivables	5,000		
Other non-current financial assets	**9,560**	**7,502**	**6,776**

The following tables show the composition of the loans per investee and their movements as at December 31, 2017 compared to the close of the previous financial year:

(values in thousands of Euro)	As at December 31, 2016	Increases	Decreases	As at December 31, 2017
Nuova Sirio S.r.l.	5	145		150
Idrogenera S.r.l.		257		257
Loans to companies under joint control	**5**	**402**		**407**

(values in thousands of Euro)	As at December 31, 2016	Increases	Decreases	Other changes	As at December 31, 2017
Cavriglia SPV S.p.A.	2,183			(2,183)	-
Tegolaia SPV S.p.A.	1,161			(1,161)	-
Blugas Infrastrutture S.p.A.	4,153				4,153
Loans to associates	**7,497**			**(3,344)**	**4,153**

Estimated loans to Cavriglia and Tegolaia as at December 31, 2017 derive from the full consolidation of the companies through the acquisition of control.

The item "Other Receivables" for Euro 5,000 thousand, present exclusively on the financial statement as at December 31, 2017, derives from the full consolidation of TuArete S.r.l. and is related to the amount paid at the moment of the tender award for the gas distribution contract of the Municipality of Rieti, which will be repaid at the time of expiry of the concession and the delivery of all other plants, networks and other distribution service equipment to the incoming operator.

The following tables show the composition of the loans per investee and their movements as at December 31, 2016 compared to the close of the previous financial year:

(values in thousands of Euro)	As at December 31, 2015	Increases	Decreases	As at December 31, 2016
Nova E. S.r.l.	1,270	20	(1,290)	-
Nuova Sirio S.r.l.	-	5	-	5
Loans to companies under joint control	**1,270**	**25**	**(1,290)**	**5**

(values in thousands of Euro)	As at December 31, 2015	Increases	Decreases	As at December 31, 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)	-
Loans to associates	**5,505**	**2,054**	**(62)**	**7,497**

Loans as at December 31, 2016 to Nova E S.r.l. are equal to zero as they were transferred to Solgenera 3 S.r.l., subsequently merged by incorporation into Estra Clima S.r.l., a fully consolidated subsidiary.

The loans granted to Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A. are represented by the shares of Estra S.p.A. of the loan issued by shareholders, in accordance with the approved Economic and Financial Plan, for the construction of the photovoltaic plants in the Municipality of Cavriglia. The loans were non-interest bearing in the 2016 financial year.

The loans to Blugas Infrastrutture S.r.l. as at December 31, 2016, derive from the provision of loans to cover the company's financial needs related to its 10% commitment in a joint venture with Edison Stoccaggio in the project for the construction and operation of a storage facility at the site of San Potito and Cotignola in the province of Ravenna following a special concession. An increase of Euro 2,054 thousand was recorded in the course of the 2016 financial year. The loans incurred interest at a rate of 3.5% in 2016.

It should be noted that during the 2016 financial year, at the end of the liquidation procedure of the investee, a total of Euro 134 thousand relating to the loans granted to the Blugas S.r.l. had been collected, entirely impaired at the end of the previous financial year due to uncertainty as to their recoverability. Capital gains of Euro 134 thousand were entered in the Income Statement under the item "Portion of income / (expenses) from valuation of financial long-term investments using the equity method".

The following tables show the composition of the loans per investee and their movements as at December 31, 2015 compared to the close of the previous financial year:

(values in thousands of Euro)	As at December 31, 2014	Increases	Decreases	As at December 31, 2015
Nova E. S.r.l.	1,020	250	-	1,270
Idrogenera S.r.l.	15	-	(15)	-
Fonteolica S.r.l.	1,198	-	(1,198)	-
Loans to companies under joint control	**3,884**	**250**	**(1,213)**	**1,270**

(values in thousands of Euro)	As at December 31, 2014	Increases	Decreases	As at December 31, 2015
Cavriglia SPV S.p.A.	2,183	-	-	2,183
Tegolaia SPV S.p.A.	1,161	-	-	1,161
Blugas Infrastrutture S.p.A.	1,061	1,038	-	2,099
Montedil S.r.l.	2	60	-	62
Loans to associated companies	**4,407**	**1,098**	**-**	**5,505**

Receivables as at December 31, 2015 to NovaE increased by Euro 250 thousand due to new loans issued to cover the activities of the investee.

Receivables as at December 31, 2015 relative to Idrogenera were estimated following their conversion into capital loans.

The loans to Blugas Infrastrutture S.r.l. as at December 31, 2015, derive from the provision of loans to support the company's financial requirements, namely its 10% commitment in a joint venture with Edison Stoccaggio in the project for the construction and operation of the storage facility at San Potito and Cotignola (Ravenna), following the relevant concession. An increase of Euro 1,038 thousand was recorded in the course of the 2015 financial year. The loans incurred interest at a rate of 5% in 2015.

10.1.8 Other non-current assets

In the financial years ended at December 31, 2017, December 31, 2016 and December 31, 2015, other non-current assets amount to Euro 4,585 thousand, Euro 1,936 thousand and Euro 969 thousand respectively and mainly refer to long-term guarantee deposits issued to the Customs Agency by the subsidiary Estra Energie S.r.l. and in favour of various suppliers for gas sales and storage activities.

10.1.9 Deferred tax assets

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, deferred tax assets amount to Euro 25,353 thousand, Euro 25,540 thousand and Euro 24,881 thousand respectively.

The table below shows the composition of deferred tax assets and their movements as at December 31, 2017 compared with the close of the previous financial year:

(values in thousands of Euro)	As at December 31, 2016	Acquisition of a subsidiary	Company transfers	Business disposals	Repayment/ Utilisation	Provisions	As at December 31, 2017
Amortisation	4,611				(99)	963	5,475
Other risk provisions	3,154			(687)	(786)	78	1,759
Provision for write-downs	9,921	238			(683)	715	10,191
Contributions received on connections	3,198				(90)	268	3,376
Write-down of fixed assets	1,510			(656)	(505)	961	1,310
Provision for early retirement of employees	365				(240)	0	125
Leasing agreements	209	127			(209)	4	131
Elimination of intangible fixed assets	631				(186)	29	474
Fair value derivatives	553	725			(890)	0	388
Leaving indemnity discounting	164	8			(9)	4	167
Other	1,224	54	65		(861)	1,473	1,955
Total	**25,540**	**1,152**	**65**	**(1,343)**	**(4,558)**	**4,495**	**25,351**

The table below shows the composition of deferred tax assets and their movements as at December 31 2016 compared with the close of the previous financial year:

(values in thousands of Euro)	As at December 31 2015	Change in scope of consolidation	Utilisation	Provisions	As at December 31, 2016
Amortisation	4,161		(74)	524	4,611
Other risk provisions	1,530		(249)	1,873	3,154
Provision for write-downs	5,770	2,197	(141)	2,095	9,921
Contributions received on connections	2,733		(98)	563	3,198
Write-down of fixed assets	1,271		(505)	744	1,510
Provision for early retirement of employees	511		(146)		365
Leasing agreements	189			20	209
Other	1,290	3	(741)	672	1,224
Elimination of intangible fixed assets	886	7	(262)		631
Fair value derivatives	648		(95)		553
Derivatives on commodities fair value	5,802		(5,802)		-
Leaving indemnity discounting	90	8		66	164
Total	**24,881**	**2,215**	**(8,113)**	**6,557**	**25,540**

The table below shows the composition of deferred tax assets and their movements as at December 31, 2015 compared with the close of the previous financial year:

(values in thousands of Euro)	As at December 31, 2014	Utilisation	Provisions	Adjustment and other changes	As at December 31, 2015
Amortisation	5,162	(882)	628	(747)	4,161
Other risk provisions	553	(30)	1,086	(79)	1,530
Provision for write-downs	5,409	(908)	1,827	(558)	5,770
Contributions received on connections	2,810	(453)	728	(352)	2,733
Write-down of fixed assets			1,271		1,271
Provision for early retirement of employees	410	(108)	255	(46)	511
Leasing agreements	196		18	(25)	189
Elimination of intangible fixed assets	715		171		886
Fair value derivatives	844	(196)			648
Derivatives on commodities fair value	2,029		3,773		5,802
Leaving indemnity discounting	233	(143)			90
Other	1,322	(505)	611	(138)	1,290
Total	**19,683**	**(3,225)**	**10,368**	**(1,945)**	**24,881**

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 differences are expected to be reversed.

No problems of recoverability are detected in relation to the capacity of the expected taxable income.

The 2016 Stability Law provides, as from the 2017 fiscal period, a reduction of the IRES tax rate from the existing 27.5% to 24%. Consequently, deferred tax assets estimated in the Consolidated Financial Statements as at 2015 at 27.5% were revalued in the 2016 financial year with the application of the reduced rate.
Deferred tax assets have been recognised since it is likely that tax revenues will be sufficient to allow for their recovery.

10.2 CURRENT ASSETS

10.2.1 Inventories

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, inventories amount to Euro 22,690 thousand, Euro 15,572 thousand and Euro 32,945 thousand respectively.

The item is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Materials inventories	3,916	2,816	3,068
Natural gas storage inventories	18,626	12,646	29,661
LPG inventories	341	303	359
Inventory Impairment Provision	(193)	(193)	(143)
Inventories	**22,690**	**15,572**	**32,945**

Inventories mainly refer to:

- spare parts for the maintenance and operation of gas distribution plants for Euro 2,675 thousand as at December 31, 2017 (Euro 2,027 thousand as at December 31, 2016 and Euro 2,313 thousand as at December 31, 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 at December 31, 2017 (Euro 193 thousand as at December 31, 2016 and Euro 143 thousand as at December 31, 2015) determined on the basis of the possibility of using or making stocks;
- gas held in storage for end customers, valued at the lower of the acquisition cost, including ancillary costs, and the estimated realisable value based on market conditions, for a total of Euro 14,323 thousand (Euro 6,404 thousand as at December 31, 2016 and Euro 27,236 thousand as at December 31, 2015);
- gas held in storage for trading activities, amounting to Euro 4,303 thousand (Euro 6,242 thousand as at December 31, 2016 and 2,425 thousand as at December 31, 2015), measured at fair value against official quotations on the reference market at the end of the financial year.

10.2.2 Trade receivables

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, trade receivables amount to Euro 294,030 thousand, Euro 300,408 thousand and Euro 251,407 thousand respectively.

The item is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
From customers	279,728	289,804	239,168
From companies under common control	10,287	6,058	9,440
From associates	1,964	1,117	1,138
From shareholders	2,051	3,429	1,661
Trade receivables	**294,030**	**300,408**	**251,407**

The adjustment of the nominal value of receivables at the expected realisable value was obtained through a provision for impairment made in consideration of the risk of non-payment of certain trade receivables relating to the sale of gas and electricity to end clients. Changes in bad debt reserve are shown in the following table:

(values in thousands of Euro)	As at December 31, 2016	Business combinations	Utilisation in the year	Accruals in the year	As at December 31, 2017
Bad debt reserve	**45,498**	1,526	-8,751	9,539	**47,813**

(values in thousands of Euro)	As at December 31, 2015	Change in scope of consolidation	Utilisation in the year	Accruals in the year	As at December 31, 2016
Bad debt reserve	**27,808**	10,230	(6,043)	13,503	**45,498**

(values in thousands of Euro)	As at December 31, 2014	Change in scope of consolidation	Utilisation in the year	Accruals in the year	As at December 31, 2015
Bad debt reserve	**23,398**	358	(4,671)	8,723	**27,808**

Trade receivables relate mainly to receivables from customers for the supply of natural gas and electricity and include accrual for invoices to be issued for estimated electricity and gas supplied to end clients and not yet invoiced as at December 31.

For further details on the methods used to determine the Bad debt reserve and the accrual for invoices to be issued for gas and electricity supplied and not yet invoiced, refer to the "Significant accounting estimates" Note.

For the details of receivables from Shareholders, companies subject to joint control and associates, refer to the table regarding transactions with related parties in the "Transactions with related parties" Note.

The payment terms generally applied to clients are based on existing legislation or regulations and are in line with free market standards; in the event of non-payment, the default interest shall be charged to the extent indicated in the delivery contract and established by applicable law.
For more details on the seniority of trade receivables, refer to the paragraph "Credit Risk" below.

10.2.3 Tax Receivables

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, tax receivables amount to Euro 35,777 thousand, Euro 22,195 thousand and Euro 8,558 thousand respectively.

The item is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
VAT credit	17,912	10,890	6,909
IRES/IRAP credit	4,076	1,187	934
UTIF	12,508	9,360	-
Other tax credits	1,281	758	715
Tax receivables	**35,777**	**22,195**	**8,558**

The increase in tax receivables between the 2016 and 2017 financial years is mainly due to an increase in VAT receivables following corporate acquisitions completed in the year.

The increase in tax receivables between the 2015 and 2016 financial years is mainly due to the closure of the 2016 financial year with consumer tax credits and other tax receivables resulting from the difference between advances paid during the year, determined on the basis of the usage of the year 2015 and tax effectively charged to customers in 2016.

The item "Other tax receivables" mainly refers to the IRES credit for non-deduction of IRAP from personnel costs.

10.2.4 Other current assets

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, other current assets amount to Euro 19,986 thousand, Euro 25,310 thousand and Euro 27,925 thousand respectively.

The item is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Receivables from Energy authority and GSE	9,757	13,506	13,976
Prepayments	3,428	5,411	2,549
Other receivables	4,780	3,690	4,621
Guarantee deposits	79	815	3,369
Electricity regional contribution	1	-	1,204
Accrued income	1,941	1,888	2,206
Other current assets	**19,986**	**25,310**	**27,925**

The item “Receivables from Energy Authority and GSE” mainly relates to the amounts due under the equalisation mechanism in relation to the constraint on total revenues of subsidiaries which operate in the distribution segment and for contributions related to the achievement of energy savings targets.

The item “Prepayments” mainly includes the payment made by the Parent Company in favour of the Municipality of Prato for Euro 1,700 thousand according to the agreement signed on November 17, 2011, as per paragraph “Main Current Litigations”.

The item “Guarantee deposits” mainly refers to deposits paid in favour of Sinergie Italiane S.r.l. by the subsidiary Estra Energie S.r.l. for commercial supplies of the current thermal year.

All receivables recognised in current assets are due within the year.

All receivables are related to entities operating in Italy, with the exception of not relevant amounts related to CEE and Extra-CEE gas marketing entities.

It is further stated that:

- There are certain credit and debit items that are related to the same subjects but are recorded separately among the receivables and payables as they are not countervailable by law due to precise agreements between the parties;
- there are no receivables subject to restrictions or limitations of any kind nor receivables to which discounts have been applied in accordance with the correct accounting principles;
- there are no transactions with repurchasing obligation clauses;
- there are no foreign currency claims.

10.2.5 Other current financial assets and liabilities

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, other current financial assets amount to Euro 12,259 thousand, Euro 28,648 thousand and Euro 18,168 thousand respectively, while other current financial liabilities amount to Euro 13,131 thousand, Euro 30,862 thousand and Euro 19,874 thousand respectively.

The item “Current financial assets” is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Bank receivables for active interests	625	84	351
Derivative instruments	11,634	28,564	17,817
Other current financial assets	**12,259**	**28,648**	**18,168**

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

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Commodity forward contracts	11,511	27,310	16,388
Commodity Swap	123	1,254	1,429
Derivative instruments	**11,634**	**28,564**	**17,817**

The item “Current financial liabilities” is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Derivative instruments	13,131	30,862	19,874
Other current financial liabilities	**13,131**	**30,862**	**19,874**

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

	As at		
(values in thousands of Euro)	**December 31, 2017**	**December 31, 2016**	**December 31, 2015**
Commodity forward contracts	11,427	28,545	11,233
Commodity Swap	176	137	6,164
Interest Rate Swap Cash flow hedge	789	1,157	1,392
Interest Rate Swap not identified as hedging derivatives	740	1,023	1,085
Derivative instruments	**13,131**	**30,862**	**19,874**

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

Forward contracts (for purchase or sale) provide for the physical delivery of gas in subsequent years, used in gas trading activities. These financial instruments are recognised at fair value at the balance sheet date, with the effects recognised on the Income Statement under item “Financial income (expenses) from commodity risk management”.
Forward contracts used in gas commercialisation activities and entered into to optimise procurement and sales portfolios (so-called “own use”) are not within the scope of IAS 39. These contracts are recognised 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. This category includes derivatives entered into in connection with trading activities and derivatives entered into in connection with gas marketing activities that do not meet the formal conditions 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 recognised directly in Shareholders' Equity under a specific equity reserve defined as "Cash flow hedge reserve", while the ineffective portion is recognised in the Income Statement. Amounts that have been recognised directly in Shareholders' Equity are reflected in the statement of Other Comprehensive Income.

The following table shows the maturity, notional value and fair value of the IRS contracts in effect as at December 31, 2017, December 31, 2016 and December 31, 2015:

	December 31, 2017		**December 31, 2016**		**December 31, 2015**	
(values in thousands of Euro)	**Fair Value positive/ (negative)**	**Notional**	**Fair Value positive/ (negative)**	**Notional**	**Fair Value positive/ (negative)**	**Notional**
IRS Multiphase, Exp. Dec. 31 2017 (MPS)			(18)	254	(29)	498
IRS Fixed Rate/Variable Rate Exp. June 30 2018 (MPS)	(5)	424	(16)	536	(26)	645
IRS Fixed Rate/Variable Rate Exp. Dec. 31 2018 (BNL)	(4)	133	(15)	267	(29)	400
IRS Fixed Rate/Variable Rate Exp. June 28 2019 (BPV)	(59)	1,944	(112)	2,500	(163)	3,056
IRS Fixed Rate/Variable Rate Exp. Oct. 28 2019 (Cariparma)	(18)	4,061	(30)	6,046	(15)	8,000
IRS Fixed Rate/Variable Rate Exp. June 30 2021 (MPS)	(83)	1,694	(133)	2,144	(170)	2,580
IRS Fixed Rate/Variable Rate Exp. Dec. 28 2021 (Unicredit)	(740)	9,000	(1,023)	9,000	(1,084)	10,000
IRS Fixed Rate/Variable Rate Exp. June 28 2024 (BPV)	(619)	4,214	(834)	4,749	(961)	5,257
IRS	**(1,529)**	**21,471**	**(2,181)**	**25,496**	**(2,477)**	**30,436**

For more details, refer to the paragraph "Interest Rate Risk".

10.2.6 Cash and cash equivalents

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, cash and cash equivalents amount to Euro 229,774 thousand, Euro 299,236 thousand and Euro 281,404 thousand respectively.

The item is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Bank and postal deposits	229,754	299,220	281,392
Cash and cash equivalents	20	16	12
Cash and cash equivalents	**229,774**	**299,236**	**281,404**

Liquidity deposited accrue bank interests 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 accrue interest rates at short-term rates. Cash and cash equivalents recorded on the Financial Statements are not subject to usage restrictions.

10.2.7 Assets and Liabilities Held for Sale

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, Assets Held for Sale amount to Euro 2,350 thousand, Euro 2,164 thousand and Euro 3,691 thousand respectively, while Liabilities Held for Sale amount to Euro 95 thousand, Euro 1,307 thousand and Euro 1,930 thousand respectively.

Assets and Liabilities Held for Sale refer to the investees Serenia S.r.l., in operation until 2016 and incorporated into Estra in 2017, and Useneko S.p.z.oo., Group shareholdings held for sale/disposal as described in "Significant accounting judgements, estimates and assumptions" and "Net result from discontinued operations" Notes.

In accordance with IFRS 5, assets and liabilities have been consolidated on a single line between "Assets Held for Sale" and "Liabilities Held for Sale", eliminating intragroup relationships.

Assets were valued on the Consolidated Financial Statements as at December 31, 2017, December 31, 2016 and December 31, 2015 at the estimated realisable value.

The following table shows the main asset and liabilities classes classified as held for sale:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Tangible assets	1,944	1,707	3,369
Trade receivables	241	233	143
Other current assets	17	100	58
Cash and cash equivalents	148	124	121
Assets Held for sale	**2,350**	**2,164**	**3,691**
Long-term loans	-	1,157	1,736
Trade payables	61	61	162
Other current liabilities	34	89	32
Liabilities Held for sale	**95**	**1,307**	**1,930**

It is noted that in the 2017 financial year, the subsidiary Useneko repaid the bank debts in full.

10.3 SHAREHOLDERS' EQUITY

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, Shareholders' Equity amount to Euro 331,920 thousand, Euro 320,521 thousand and Euro 270,298 thousand respectively.

The change in the Group Shareholders' equity as at December 31, 2017 compared to December 31, 2016 is mainly due to:

- distribution of dividends to Shareholders by the Parent Company (- Euro 10,874 thousand);
- Increase in share capital of Estra through the transfer of assets by Multiservizi, including the resulting effects deriving from the full consolidation of EDMA S.r.l. (+ Euro 29,697 thousand);
- Effects of the acquisition of non-controlling interests in existing subsidiaries (- Euro 9,554 thousand). Refer to the paragraph "Business combinations and disposals of assets, and acquisitions and disposals of non-controlling interests";
- Effects of the acquisition of control in existing investee companies Cavriglia and Tegolaia (- Euro 1,034 thousand). Refer to the paragraph "Business combinations and disposals of assets, and acquisitions and disposals of non-controlling interests";
- Reversal to the Income Statement of the cash flow hedge reserve recorded for hedging derivatives for long-term loans acquired as part of the acquisition of Cavriglia and Tegolaia following their expected disposal (+ Euro 2,010 thousand);
- Total comprehensive income of the Group (+ Euro 11,353 thousand);
- Share of the total comprehensive income acquired by the Group for changes in shareholdings in subsidiaries (+ Euro 4,999 thousand), represented by the result for the year attributable to the non-controlling interest recorded on the Income Statement of non-controlling interests until the completion of the transaction.

The change in the Group Shareholders' equity as at December 31, 2016 compared to December 31, 2015 is mainly due to:

- Distribution of dividends to Shareholders by the Parent Company (- Euro 9,984 thousand);
- acquisition of a 50,50% shareholding in Prometeo through exchange of shares in Estra Energie S.r.l. (+ Euro 14,003 thousand);
- Result of the year of the Group (+ Euro 11,016 thousand);
- Change in the reserve for actuarial gains (losses) (- Euro 170 thousand);
- Change in Cash flow hedge reserve (+Euro 25 thousand).

The change in Shareholders' Equity attributable to non-controlling interests as at December 31, 2017 compared to December 31, 2016 is mainly due to:

- Transfer by Multiservizi to Estra of holdings of 55% in EDMA S.r.l., with the consequent reduction in the minority shares of Estra Energie, directly held by EDMA S.r.l. and the subsidiaries of Estra Energie, indirectly held by EDMA S.r.l. (- Euro 9,449 thousand);
- Effects of the acquisition of non-controlling interests in existing subsidiaries (- Euro 6,977 thousand). Refer to the paragraph "Business combinations and disposals of assets, and acquisitions and disposals of non-controlling interests";
- Effects of the disposal by the Group of a 6.5% non-controlling interest in Prometeo (Euro 3,468 thousand). Refer to the paragraph "Business combinations and disposals of assets, and acquisitions and disposals of non-controlling interests";
- Distribution of dividends to minority shareholders (- Euro 3,709 thousand).
- total comprehensive income of non-controlling interests (+ Euro 5,090 thousand);
- Portion of the Comprehensive Income Statement acquired by the Group through changes to interests in subsidiaries (- Euro 4,999 thousand)

The change in Shareholders' Equity attributable to non-controlling interests as at December 31, 2016 compared to December 31, 2015 is mainly due to:

- full consolidation of Prometeo S.r.l. and allocation to minority shareholders of their share of net assets (+ Euro 32,205 thousand);
- profit for the year attributable to non-controlling Interests (+ Euro 4,033 thousand);
- distribution of dividends to Minority Shareholders (- Euro 831 thousand).

10.4 NON-CURRENT LIABILITIES

10.4.1 Provisions for risks and charges

In the financial years ending at December 31, 2017 and December 31, 2016, provisions for risks and charges amount to Euro 11,350 thousand and Euro 16,570 thousand respectively

The following table shows the changes to the item in the 2017 financial year:

Provisions for risks and charges **(values in thousands of Euro)**	**As at December 31, 2016**	**Acquisition of a subsidiary**	**Provisions**	**Utilisation**	**Reversal**	**Business disposals**	**As at December 31, 2017**
Agency leaving indemnities provisions	156		96	(20)			232
Provision for disputes and legal expenses	5,222		417	(90)	(1,350)		4,199
Energy Efficiency Certificates	175		350				525
Provision for early retirement of employees	674				(646)		28
Other risks	10,343	78	866	(567)	(2,204)	(2,610)	5,906
Provision for plant disassembly		456	5				461
Provisions for risks and charges	**16,570**	**534**	**1,734**	**(677)**	**(4,200)**	**(2,610)**	**11,351**

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. The provision was reversed for Euro 1,350 thousand. In particular, the reversal of the excess amount of the provision recorded during the 2015 financial year (originally totalling Euro 3,370 thousand and aimed at covering possible expenses related to the sale of the gas distribution plant in the Municipality of Prato) is recorded for Euro 1,000 thousand following the partial revision of the risks connected to possible reductions in the sale price. For more details on related lawsuits, refer to Note 10.4.1.1 “Main current litigations”.

The item “Energy efficiency certificates” relates to risks connected to the performance of the energy efficiency market, considering the certificates to be purchased for the 2017 commitment and the latest available valuation of the refund recognised by the Authority.

The item “Early retirement of employees” refers to the expenses deriving from the agreement pursuant to Article 4 of Law no. 28/2012. As of May 29, 2014, a regulatory framework agreement for the Estra Group was signed with Trade Unions regarding the use of the instrument introduced by Law 92/2012 (Article 4 - paragraphs 1 to 7ter) aimed at encouraging the exodus of workers whose right to retirement matures within four years; the provision relates to additional requests for membership which the Group expects to receive. The item recognises a reversal of Euro 646 thousand following the lack of membership subscriptions within terms set by the agreements.

The item “Other risks” relates mainly to risks connected to renewable energy plants and technological telecommunications equipment. The change in the year mainly refers to:

- the disposal (as described in more detail in the paragraph “Main current litigations”, to follow) with the consequent deconsolidation of Andali (reduction in provisions of Euro 2,610 thousand) and the settlement of the dispute for which a provision was allocated to cover the risk of non-recoverability of the incurred costs of

preliminary work and labour carried out prior to the construction of the wind farm, as well as any other expenses related to the fulfilment of contractual obligations;
- the partial reversal, for Euro 2,205 thousand, of the provision allocated to cover the risk of enforcement of the security guarantee issued by Andali Energia S.r.l. to GSE.
  Refer to the paragraph "Sale of Andali Energia S.r.l." for more details.

In the financial years ending at December 31, 2016 and December 31, 2015, provisions for risks and charges amount to Euro 16,570 thousand and Euro 15,181 thousand respectively.

The following tables show the changes to the items during the years 2016 and 2015:

Provisions for risks and charges **(values in thousands of Euro)**	**As at December 31, 2015**	**Transfer from Nova E S.r.l.**	**Change in scope of consolidation**	**Provisions**	**Utilisation**	**Reversal**	**Reclassifications**	**As at December 31, 2016**
Agency leaving indemnities provisions	232		26	29	(4)	(127)		156
Provision for disputes and legal expenses	6,274		31	330	(51)	(1,362)		5,222
Energy Efficiency Certificates	-			175				175
Provision for early retirement of employees	711				(37)			674
Other risks	7,964	226	0	2,573	(536)	0	116	10,343
Provisions for risks and charges	**15,181**	**226**	**57**	**3,107**	**(628)**	**(1,489)**	**116**	**16,570**

Provisions for risks and charges **(values in thousands of Euro)**	**As at December 31, 2014**	**Change in scope of consolidation**	**Impairment**	**Utilisation**	**Reclassifications and other changes**	**As at December 31, 2015**
Agency leaving indemnities provisions	113		122	(3)		232
Provision for disputes and legal expenses	2,844	66	50	(162)	3,476	6,274
Provisions for risks on technological equipment for telecommunications	746		180			926
Provision for early retirement of employees	1,637		646		(1,572)	711
Other risks	3,112	200	4,746	(1,018)	0	7,040
Provisions for risks and charges	**8,452**	**266**	**5,744**	**(1,183)**	**1,904**	**15,181**

For the item "Provision for disputes and legal expenses", refer to the paragraph "Main current litigations" below.

10.4.1.1 Main current litigations

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

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 August 31, 2015 the handover agreement of the network (with the plants and assets constituting the natural gas distribution system), with a simultaneous payment by Toscana Energia to Centria for Euro 85,538 thousand plus VAT in compensation for the networks.
During the year 2016, Estra and Centria filed a lawsuit before the Court of Prato against the Municipality of Prato and Toscana Energia, in order to obtain a ruling against the same for an obligation to pay Euro 9,613 thousand, representing the amount recognised to the outgoing operator Centria for the handover of the networks, which was lower than the amount envisaged in the call for tender, in application of a disputed indexing and revaluation mechanism of the same based on the time elapsed between the call for tender and the handover of the networks.
The appeal lodged against the Municipality of Prato was based on a settlement agreement signed between Estra and the Municipality of Prato on November 17, 2011 with which, among other things, the Parties had intended to

settle the reciprocal disputes regarding the value of compensation of the network due from the incoming operator to the outgoing operator, with a commitment by Estra to pay to Toscana Energie Euro 7,700 thousand (of which Euro 1,700 thousand was paid on November 17, 2011).
During the proceedings before the Court of Prato, Toscana Energie and the Municipality of Prato deduced the groundlessness of the appeal and presented a series of counterclaims; in particular:

- the Municipality of Prato submitted a counterclaim to obtain the payment of Euro 6,000 thousand in view of the provisions of the aforementioned settlement agreement signed in 2011 to determine, among other things, the value of compensation to be paid to the outgoing operator;
- Toscana Energia submitted a counterclaim to obtain a payment of Euro 1,742 thousand in relation to an alleged difference in consistency of the network to that represented by the outgoing operator.

The Company, in line with the legal advice received, believes it can legitimately oppose the request of the Municipality of Prato to pay the remaining sum of Euro 6,000 thousand.
Regarding the reservations expressed by Toscana Energia when signing the network handover report, some of which are already accepted by the Municipality of Prato, it was deemed prudent to maintain the risk provisions for Euro 1,742 thousand.
It is noted that on December 20, 2017, the judge issued an order with which, among other things:
- the expert appraisal requested by Estra/Centria was accepted, exclusively in relation to the supposed inconsistency in the network compared to that represented by the outgoing operator;
- the expert appraisal requested by Toscana Energia in relation to the estimated benefits that Estra/Centria would have gained from the operation of the plant in the period between July 1, 2011 (the date on which the plant estimate was made) and August 31, 2015 (handover date of the plant to the new operator) was not accepted.
In addition to the above, the judge raised from the outset (i) a question about the possible annulment of the aforementioned settlement agreement of 2011, envisaged on the basis of the possibly unavailable nature of the compensation due to the outgoing operator pursuant to Articles 14-15 of Legislative Decree no. 164/2000, as well as (ii) a question regarding the effects that the annulment of the compensation clause could have on the validity of the entire agreement. The judge therefore invited the parties to file a defence regarding the two questions raised.
In the case that the judge confirms the annulment of the clause of the settlement agreement of 2011 that determines the compensation owed to the outgoing operator and the validity of the tender documents and contracts signed between the Municipality of Prato and Toscano Energia (as well as between Centria and Toscana Energia).
As of this date of this document, the parties have submitted their defences and the judge has set the hearing for report of the expert witness for September 13, 2018.
Estra and Centria, having consulted their legal advisors, believe they could benefit from sound arguments aimed at confirming the validity of the settlement agreement. However, in the light of the order issued by the Judge on December 20, 2017, the Company deems that the risk of losing such a ruling is significant.

Arbitration Proceedings - Andali Energia S.r.l./Terna – Rete Elettrica Nazionale S.p.A.

In the 2016 financial year, the Group, through its subsidiary Andali Energia S.r.l. (“Andali”), holder of the Single Authorisation for the construction of a 36 MW wind farm in the Municipality of Andali (CZ), brought an arbitration procedure against Terna – Rete Elettrica Nazionale S.p.A. (“Terna”), pending the outcome of the hearing for the admission of evidence, concerning the request to terminate the inter partes connection agreement due to non-fulfilment by Terna with the ruling to pay damages in favour of Andali.

The underlying legal issue concerns the fulfilment of multiple obligations arising from the connection contract and, in particular, the delay in the construction by Terna of an electrical substation at the site in Belcastro in sufficient time as to allow Andali to connect the wind farm to the national grid, in compliance with the terms of the Single Authorisation and in order to safeguard the tariff obtained.

The claim for damages submitted by Andali amounted to Euro 8,535 thousand, in addition to Euro 4,410 thousand for the security guarantee provided to GSE in the case that the same, pending the outcome of the ongoing lawsuit, should proceed with the relative enforcement. With regard to loss of profit, the claim for damages submitted by Andali amounts to Euro 23,613 thousand. Terna opposed these conclusions and filed a counterclaim against Andali for a value of Euro 7,153 thousand, in addition to Euro 1,700 thousand per year of delay in the completion of the work.

On December 20, 2017 the ESTRA Group, through its subsidiary Solgenera S.r.l., transferred to Sunshine S.r.l. full ownership of its 100% shareholding in Andali. On the same date, Sunshine S.r.l. pledged the shares to Solgenera S.r.l. as a guarantee against possible incremental adjustments to the sale price. The Group continues to bear the risk deriving from the possible enforcement of the security guarantee issued to GSE for 50% of the total, amounting to Euro 2,205 thousand, which is recognised in the provisions for risks and charges.

Appeal against the award to Coopgas S.r.l. of the public tender held by the Municipality of Atessa for the sale of 49% of share capital of Sangro Servizi S.r.l.

As regards the acquisition of 49% of the share capital of Sangro Servizi S.r.l., it is noted that an appeal has been brought by Hera Comm against the decision of the Regional Administrative Court of Abruzzo of February 22, 2017 which accepted the appeal brought by Coopgas against the exclusion from the public tender issued by the Municipality of Atessa for the alleged unsuitability of the prerequisites of the call.

The appeal lodged by Hera Comm also requested the issue of an interim measure. At the hearing of April 6, 2017, the Council of State accepted the appeal for an interim measure and effectively suspended the enforcement of the ruling. With the ruling of January 11, 2018 the Council of State accepted the appeal of Hera Comm S.r.l. and consequently rejected the original appeal of Coopgas.

Pending the ruling of the Council of State, on April 3, 2017 Hera Comm submitted an appeal to the Regional Administrative Court of Abruzzo in order to obtain the termination of the Acts of Accession of the Municipalities of Atessa, Paglieta and San Vito Chietino regarding the contract for the sale of shares in Sangro Servizi to Coopgas, signed on March 7, 2017, with the resolutions of the same Municipalities which authorised the fulfilment of the Acts and, consequently, the declaration of ineffectiveness of the contract for the sale of shares, reserving the right to claim compensation for damages in a future judgement. As of today, the procedure is pending and the hearing set by the Regional Administrative Court of Abruzzo for January 12, 2018 was rescheduled for February 9, 2018.

The Company, on the basis of the legal advice received, believes it is possible that the Group will lose in the aforementioned proceedings. However, the Company has made no provisions for this given that, in the case the proceedings are lost, the Group would only be required to repay to the relevant Municipalities the shares in Sangro Servizi, against the obligation of the Municipalities to repay to Estra Energie S.r.l. the amounts paid by the latter for the sale of shares (possibly through delegated payment to Hera Comm S.r.l., in its capacity as the newly awarded tenderer).

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 improper commercial practices and imposing a fine of Euro 500 thousand, entered into the Consolidated Financial Statements as at December 31, 2016.
After the close of the financial year, the two companies made the payment and subsequently took into account:

- that they had already voluntarily commissioned an audit to verify customer procurement procedures and identified the corrective measures to be applied to comply with specific industry regulations;
- that the cases examined in the AGCM provision show that Estra Energie and Estra Elettricità were themselves harmed by the conduct of some of the parties used by the same;
- that the companies had already taken action against agencies and telesellers, such as the application of the penalties provided for in the contracts and the termination of the same;

that the companies also filed an appeal to the Regional Administrative Court of Lazio on March 18, 2017 against the ruling.

Formal notice of assessment issued to Coopgas S.r.l.

On 1December 19, 2017 the Guardia di Finanza of Modena served a formal notice of assessment ("PVC") to CoopGas S.r.l., a company acquired by the Group in February 2016 and later merged by incorporation into Estra Energie S.r.l., concerning (i) the presumed falsity of the IRES and IRAP declarations for the deduction of costs referring to non-existent transactions equal to Euro 195 thousand for the 2014 financial year and sponsorship costs considered as non-deductible donations for Euro 325 thousand in 2015, and (ii) the non-deductibility of VAT on invoices for non-existent costs of approximately Euro 43 thousand, also in 2014.

The findings relating to the 2014 financial year led to a report to the judicial authority against the representative of the company at the time the alleged offence was committed, given that according to the judgement of the Guardia di Finanza, the costs were documented through the preparation of invoices related to non-existent transactions.

It should be noted that PVC is a subordinate procedure and does not prescribe the sanctions that may be imposed by the Financial Authorities when confirming the conditions of the PVC criteria and, therefore, does not allow for the precise quantification of the risk associated with the dispute. On the basis of the findings and the documentary evidence contained in the PVC, the Group has nonetheless estimated an approximate maximum sum of Euro 211 thousand in taxes and Euro 401 thousand in administrative penalties which may be applied as a result of the assessment.

Given that as at the date of this document, there are not sufficient grounds for an appeal against the aforementioned findings (referring to acts dating back to the financial years prior to the acquisition of CoopGas), the Group deems it opportune to accept the terms of the notice of assessment, which, according to standard terms, must be notified, under penalty of forfeiture, by December 31, 2023. The Group has therefore recognised a provision of Euro 350 thousand in the Consolidated Financial Statements as at December 31, 2017 to cover any expenses relating to taxes and penalties, with the latter reduced by one third as usually envisaged in the case of acceptance of terms of the notice of assessment.

10.4.2 Employee Leaving Indemnity Provision

For accounting purposes, the Provision for Leaving Indemnity Payments provided by Article 2120 in Civil Code is considered as a defined benefit plan and as such is recognised in accordance with IAS 19, which requires the valuation of the related liability on the basis of actuarial techniques.

The table below shows the changes in the defined benefit obligations and fair value of related assets which took place in 2017:

Defined benefit obligations as at January 1, 2017	Acquisitions	Transfers	Service costs	Interest	Benefits paid	Inbound (outbound) transfers	Provisional obligations as at December 31. 2017	Actuarial gains (losses) from experience	Actuarial gains (losses) from changes to financial assumptions	Defined benefit obligations as at December 31, 2017
7,124	172	118	209	102	(96)	-	7,628	(21)	(2)	7,605

The table below shows the changes in the defined benefit obligations and fair value of related assets which took place in 2016:

Defined benefit obligations as at January 1, 2016	Acquisitions	Service costs	Interest	Benefits paid	Inbound (outbound) transfers	Provisional obligations as at December 31. 2016	Actuarial gains (losses) from experience	Actuarial gains (losses) from changes to financial assumptions	Defined benefit obligations as at December 31, 2016
6,627	444	125	135	(411)	(35)	6,885	(78)	317	7,124

The table below shows the changes in the defined benefit obligations and fair value of related assets which took place in 2015:

Defined benefit obligations as at January 1, 2015	Acquisitions	Service costs	Interest	Benefits paid	Inbound (outbound) transfers	Provisional obligations as at December 31, 2015	Actuarial gains (losses) from experience	Actuarial gains (losses) from changes to financial assumptions	Defined benefit obligations as at December 31, 2015
8,149	91	77	112	(1,280)	-	7,149	(142)	(380)	6,627

Main assumption adopted are following reported:

Summary of Financial and Technical Bases for Analysis

	December 31, 2017	December 31, 2016	December 31, 2015
Annual discounting rate	1.30%	1.31%	2.03% 1.50% in 2016 1.80% in 2017
Annual inflation rate	1.50%	1.50%	1.70% in 2018 1.60% in 2019 2.00% from 2020 onwards 2.625% in 2016 2.850% in 2017
Annual rate TRF increase	2.63%	2.63%	2.775% in 2018 2.700% in 2019 3.000% from 2020 onwards
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.

Summary of Demographic Technical Basis for Analysis

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

Annual frequency of Turnover and Advance Leaving Indemnity Payments

Advances Frequency	Turnover Frequency
1.06%	0.50%

A qualitative sensitivity analysis based on significant assumptions as at December 31, 2017, 2016 and 2015 is given below:

Forecast	Change	December 31, 2017	December 31, 2016	December 31, 2015
Turnover frequency	+ 1/4%	7,479	7,006	6,534
	- 1/4%	7,609	7,133	6,579
Inflation rate	+ 1/4%	7,682	7,203	6,762
	- 1/4%	7,401	6,932	6,358
Discounting rate	+ 1/4%	7,331	6,863	6,292
	- 1/4%	7,758	7,277	6,835

The above-mentioned sensitivity analyses 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 analyses are based on the variation of one of the significant assumptions, while retaining all the other consistent assumptions. Sensitivity analyses 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 future years for defined benefit plan obligations:

	Estimated disbursements				
	2018	2019	2020	2021	2022
Total	631	176	241	254	373

The average duration of the defined benefit plan obligation as at the end of the 2017 financial year is 19.7 years (approximately 19.5 years as at December 31, 2016 and 20 years as at December 31, 2015).

10.4.3 Long-term financial liabilities

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, long-term loans amount to Euro 435,503 thousand, Euro 386,950 thousand and Euro 343,231 thousand respectively.
The item is broken down as follows:

(values in thousands of Euro)	As at December 31, 2017		As at December 31, 2016		As at December 31, 2015	
	Value of Balance Sheet	Nominal Value	Value of Balance Sheet	Nominal Value	Value of Balance Sheet	Nominal Value
Bonds due within 12 months			-	-	-	-
Bonds maturing after 12 months	213,922	218,200	213,046	218,200	146,271	150,000
Total amount due to bonds	**213,922**	**218,200**	**213,046**	**218,200**	**146,271**	**150,000**
Shareholders' loans due within 12 months	1,435	1,435	1,435	1,435	1,435	1,435
Shareholders' loans due after 12 months	11,110	11,110	12,545	12,545	13,980	13,980
Total shareholders' loans	**12,545**	**12,545**	**13,980**	**13,980**	**15,415**	**15,415**
Loans payable within 12 months	65,507	65,507	50,343	50,343	46,842	46,842
Loans payable within 12 months	137,782	138,280	102,846	103,247	127,601	128,183
Total amounts due to banks	**203,289**	**203,787**	**153,189**	**153,590**	**174,443**	**175,025**
Leasing due within 12 months	322	322	365	365	365	365
Leasing due after 12 months	5,425	5,425	6,370	6,370	6,737	6,737
Total amount due to leasing	**5,747**	**5,747**	**6,735**	**6,735**	**7,102**	**7,102**
Total due within 12 months	67,263	67,263	52,143	52,143	48,642	48,642
Total due after 12 months	368,240	373,015	334,807	340,362	294,589	298,900
Total long-term loans	**435,503**	**440,278**	**386,950**	**392,505**	**343,230**	**347,542**

The change of the item during the financial year 2017 is reported below:

(values in thousands of Euro)	As at December 31, 2016	Business combinations	Transfer by Multiservizi	Disbursement	Repayment	Amortised cost interest	As at December 31, 2017
Bonds	213,046					876	213,922
Loans	153,189	26,211	1,668	107,000	(85,011)	232	203,289
Leasing	6,735	5,826			(6,814)		5,747
Shareholders' loans	13,980				(1,435)		12,545
Total long-term loans	**386,950**	**32,037**	**1,668**	**107,000**	**(93,260)**	**1,108**	**435,503**

The change in the financial year listed under "Business combinations" refers to the acquisition of the companies Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A., of which Euro 32,037 refers to long-term loans granted to the companies prior to acquisition for the construction of photovoltaic plants. In order to rationalise the financial expenses, these were settled by the Group at the end of the year along with the underlying hedging derivatives.

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

(values in thousands of Euro)	As at December 31, 2015	Acquisition of Coopgas S.r.l.	Transfer from Nova E S.r.l.	Disbursement	Repurchase/ Refund	Amortised/depreciated cost interest	As at December 31, 2016
Bonds	146,271	-	-	80,000	(11,800)	(1,425)	213,046
Loans	174,443	13,968	-	52,000	(87,402)	180	153,189
Leasing	7,102	-	2,338	-	(2,704)	-	6,735
Shareholders' loans	15,415	-	-	-	(1,435)	-	13,980
Total long-term loans	**343,231**	**13,968**	**2,338**	**132,000**	**(103,341)**	**(1,245)**	**386,950**

On November 28, 2016 a non-convertible bond loan was issued, represented by bonds listed on the regulated market managed by the Irish Stock Exchange, where the relative prospectus had 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 repurchase in January 2016 for Euro 11,800 thousand refers to the bond loan of Euro 50 million issued in 2014 and listed under the ExtraMot Pro segment of the Italian Stock Exchange.

As regards leasing arrangements, the repayment, with the redemption of assets, of the leasing contracts received in transfer from Nova E S.r.l. should be noted.

The following table shows the book value of each bond loan issued as at December 31, 2017, December 31, 2016 and December 31, 2015:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
MINIBOND BPV 2014-2019	37,563	37,271	48,347
BOND BPN 2015-2022	98,463	98,195	97,924
BOND IMI 2016-2023	77,895	77,580	-
Bonds	**213,922**	**213,046**	**146,271**

The item Shareholders' loans includes long-term loans, subject to bank and bond debt granted by Consiag and Intesa, and in particular:

- debt to the Shareholder Consiag of Euro 15,000, repayable in 24 half-yearly instalments from June 30, 2015, with share capital increases at an annual rate of 3% and a residual debt as at December 31, 2017 of Euro 11,250 thousand;
- debt to the Shareholder Coingas Euro 1,850, repayable in 20 half-yearly instalments from June 30, 2015, with share capital increases at an annual rate of 3% and a residual debt as at December 31, 2017 of Euro 1,295 thousand.

10.4.4 Deferred tax liabilities

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, deferred tax liabilities amount to Euro 38,667 thousand, Euro 36,109 thousand and Euro 24,386 thousand respectively.

The breakdown of the item and the changes in the 2017 financial year are shown below:

(values in thousands of Euro)	As at December 31, 2016	Acquisition of a subsidiary	Transfer	Provisions	Utilisation/reversal	As at December 31, 2017
Not paid dividends	318	14		280	(152)	460
Amortised costs applied to bonds	765				(193)	572
Payment in instalments of capital gains	6,145				(2,048)	4,097
Capital gains of assets under concession	3,223		103	135	(51)	3,410
Extraordinary income from intangible assets	25,602	5,743		236	(1,584)	29,997
Extraordinary income from tangible assets		55				55
Other	56			20		76
Deferred tax liabilities	**36,109**	**5,812**	**103**	**671**	**(4,028)**	**38,667**

The breakdown of the item and the changes in the 2016 financial year are shown below:

(values in thousands of Euro)	As at December 31, 2015	Acquisition of a subsidiary	Provisions	Utilisation/reversal	As at December 31, 2016
Not paid dividends	406		253	(341)	318
Amortised costs applied to bonds	708		293	(236)	765
Payment in instalments of capital gains	8,492			(2,347)	6,145
Capital gains of assets under concession	3,310			(87)	3,223
Extraordinary income from intangible assets	5,664	21,382	208	(1,652)	25,602
Derivatives on commodities fair value	5,758			(5,758)	0
Other	48		34	(26)	56
Deferred tax liabilities	**24,386**	**21,382**	**788**	**(10,447)**	**36,109**

The breakdown of the item and the changes in the 2015 financial year are shown below:

(values in thousands of Euro)	As at December 31, 2014	Provisions and utilisations	As at December 31, 2015
Payment in instalments of capital gains	-	8,492	8,492
Extraordinary income from tangible assets	3,791	(481)	3,310
Extraordinary income from intangible assets	-	5,664	5,664
Derivatives on commodities fair value	1,897	3,861	5,758
Other	777	385	1,162
Deferred tax liabilities	**6,465**	**17,921**	**24,386**

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%. Consequently, the provision led to the adjustment of deferred tax liabilities due to temporary variations present in the financial statements as at December 31, 2014 and later reversed as at December 31, 2016.

10.4.5 Other non-current liabilities

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, other non-current liabilities amount to Euro 767 thousand, Euro 2,771 thousand and Euro 3,319 thousand respectively.
The item is broken down as follows:

	As at		
(values in thousands of Euro)	**December 31, 2017**	**December 31, 2016**	**December 31, 2015**
Other payables over 12 months		6	181
Payables for rights on leased assets		546	562
Long-term deferred income	767	2,219	2,576
Other non-current liabilities	**767**	**2,771**	**3,319**

The item "Long-term deferred income" predominantly refers to the rental of fibre optic connections in the financial year for the transmission of data in the telecommunications segment.

10.5 CURRENT LIABILITIES

10.5.1 Short-term financial liabilities

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, short-term financial liabilities amount to Euro 10,322 thousand, Euro 115,815 thousand and Euro 104,547 thousand respectively.

The item is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Bank advances and bank account utilisation	7,193	112,700	101,329
Payables to bondholders for accrued interests	3,129	3,115	3,218
Short-term financial liabilities	**10,322**	**115,815**	**104,547**

In the course of the year the Group repaid the short-term credit lines through the use of cash and cash equivalents.

10.5.2 Trade payables

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, trade payables amount to Euro 209,824 thousand, Euro 194,625 thousand and Euro 174,567 thousand respectively.

The item is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Payables due to suppliers	204,659	182,346	166,612
Payables due to companies under common control	2,342	12,142	6,723
Payables due to parent companies	2,817	137	825
Payables due to associates	7	-	407

Trade payables	**209,824**	**194,625**	**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 recognised at the time of payment. The nominal value of such debts has been adjusted for resales or rebates (billing adjustments) as defined with the counterparty.

All debts are due within 12 months and relate to entities operating in Italy, with the exception of insignificant amounts relating to CEE and Extra-CEE customers for gas purchases.

For the details of payables to Shareholders, companies subject to joint control and associates, as well as the terms and conditions of related party debt, refer to the "Transactions with related parties" Note.

10.5.3 Tax payables

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, tax payables amount to Euro 21,833 thousand, Euro 12,347 thousand and Euro 9,249 thousand respectively.

The item is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Irpef tax substitutes	880	831	852
VAT payable	2,154	596	99
IRES/IRAP payables	1,198	2,307	6,905
Excise duty and additional taxes	17,599	7,890	1,393
Other payables	3	723	-
Tax payables	**21,833**	**12,347**	**9,249**

10.5.4 Other current liabilities

In the financial years ending at December 31, 2017, December 31, 2016 and December 31, 2015, other current liabilities amount to Euro 51,236 thousand, Euro 36,400 thousand and Euro 38,929 thousand respectively.

The item is broken down as follows:

	As at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Payables due to personnel for wages and salaries	3,870	3,350	3,116
Payables to social security institutions	1,624	1,437	1,401
Amounts due to CCSE (Electricity Equalisation Fund)	6,031	5,110	5,792
Payables for the acquisition of shareholdings in Tegolaia and Cavriglia	2,611		
Payables for the acquisition of shareholdings in Eta3	3,990		
Payables for acquisition of shareholdings in Gergas S.p.A.			1,600
Accruals and deferrals	1,658	363	542
Amounts due for early retirements	462	866	1,382
Guarantee deposits	25,932	17,822	13,636
Other payables	5,057	7,452	11,460

Other current liabilities	**51,236**	**36,400**	**38,929**

The item refers mainly to security deposits paid by customers as guarantees against gas usage, with an increase recorded in 2017 compared to 2016 following the acquisition of new users during the financial year.

10.5.5 Financial instruments and fair value measurements

The classification of financial instruments in according with IAS 39 is transversal to several budget items. The table below shows the book value of current financial instruments, listed by membership category, compared with the corresponding fair values as at December 31, 2017, December 31, 2016 and December 31, 2015.

FINANCIAL ASSETS	As at December 31, 2017		As at December 31, 2016		As at December 31, 2015	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets at fair value with changes recognised on the Income Statement	**11,634**	**11,634**	**28,564**	**28,564**	**17,817**	**17,817**
Commodity forward contracts	11,512	11,512	27,310	27,310	16,388	16,388
Commodity Swap	123	123	1,254	1,254	1,429	1,429
Loans to companies under common control	**303,800**	**303,800**	**309,930**	**309,930**	**259,503**	**259,503**
Loans to companies under joint control	407	407	5	5	1,270	1,270
Loans to associated companies	4,153	4,153	7,497	7,497	5,506	5,506
Long-term security deposits	4,585	4,585	1,936	1,936	969	969
Trade receivables	294,030	294,030	300,408	300,408	251,407	251,407
Receivable from banks	625	625	84	84	351	351
Cash and cash equivalents	**229,774**	**229,774**	**299,236**	**299,235**	**281,404**	**281,404**
Assets held for sale	**2,350**	**2,350**	**2,164**	**2,164**	**3,691**	**3,691**
TOTAL ASSETS	**547,558**	**547,558**	**639,893**	**639,893**	**562,415**	**562,415**

Fair value related to financial liabilities with variances on profit	As at December 31, 2017		As at December 31, 2016		As at December 31, 2015	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial liabilities at fair value with changes recognised on the Income Statement	**12,343**	**12,343**	**29,705**	**29,705**	**18,481**	**18,481**
Commodity forward contracts	11,427	11,427	28,545	28,545	11,233	11,233
Commodity Swap	176	176	137	137	6,164	6,164
IRS derivatives not identified as forward	740	740	1,023	1,023	1,084	1,084
Financial liabilities at fair value with changes recognised under Shareholders' Equity	**789**	**789**	**1,157**	**1,157**	**1,392**	**1,392**
IRS Derivatives Cash flow hedge	789	789	1,157	1,157	1,392	1,392
Liabilities at amortised cost	**681,581**	**681,581**	**715,213**	**715,213**	**635,981**	**635,981**
Trade payables	209,824	209,824	194,625	194,625	174,567	174,567
Long-term financial liabilities	435,503	435,503	386,951	386,951	343,230	343,230
Short-term payables due to banks	10,322	10,322	115,815	115,815	104,547	104,547
Guarantee deposits	25,932	25,932	17,822	17,822	13,637	13,637
Liabilities directly associated with assets held for sale	**95**	**95**	**1,307**	**1,307**	**1,930**	**1,930**
TOTAL LIABILITIES	**694,807**	**694,807**	**747,382**	**747,382**	**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 differing from the listed prices referred to at Level 1, which are observable for the asset or liability either directly (as for prices) or indirectly (i.e. 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 the determination of the fair value of derivatives on interest rates or commodity prices, a pricing model based on the forward market curve of the date of the financial statement is used, if the underlying asset of the derivative is traded on markets with an official forward pricing structure. In the case where the market does not offer forward prices, forecast pricing curves are based on internal valuation techniques.

In reference to non-performance risk, specifically the risk that one of the parties does not honour its contractual commitments due to default before the expiry of the derivative, both with reference to the risk of default of the counterparty (Credit Value Adjustment: CVA) and of the company itself (Debt Risk Adjustment: DVA), no significant adjustments have been made; this is in consideration of the type of derivative instruments in the portfolio (represented exclusively by the forward sale or acquisition of commodities through short-term forward contracts and financial derivatives with leading credit institutions) and the credit ratings of the contracted counterparties and the Group.

The Group is not compensating 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.

As regards the item "Security deposits", the book value was considered to be a reasonable approximation of the fair value.
Financial assets held for sale are valued at fair value, determined as the best estimate of the realisable price obtainable from their disposal.

11. Earnings per share (basic and diluted)

As required by IAS 33, information is provided regarding the data used to calculate Basic earnings per ordinary share and diluted earnings per share. Basic earnings per ordinary share is calculated by dividing the net income of shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. No dilutive effects to earnings per share were recorded in the three years period.
The values used to calculate basic earnings per share are shown below.

	As at December 31		
	2017	**2016**	**2015**
Relevant net income of shareholders of the Parent Company (in thousands of Euro)	11,020	11,016	34,069
- Operating assets	11,397	13,016	35,126
- Assets held for disposal	(377)	(2,000)	(1,057)
Average number of outstanding ordinary shares in the period	205,125,118	205,000,000	205,000,000
Basic and diluted result per ordinary share (Euro)	**0.05**	**0.05**	**0.17**
Basic and diluted earnings from operating assets per ordinary share (Euro)	**0.06**	**0.06**	**0.17**

In this respect, it is noted that 500,000 shares held by Eta 3 (as at December 31, 2017, December 31, 2016 and December 31, 2015) were excluded from the calculation as the company falls within the scope of consolidation of the Group.

It is also noted that following the completion of the Multiservizi transaction on December 28, 2017 and subsequent to the Extraordinary Shareholders' Meeting, Estra resolved to increase share capital, with the exclusive of option rights pursuant to Article 2441, paragraph 6 of the Italian Civil Code, up to a maximum of 228,334 thousand, through the offer of 22,834 thousand newly issued shares of a nominal value of Euro 1.00 reserved to Multiservizi S.p.A.
The 22,834 thousand newly issued shares were subscribed by Multiservizi by transfer in kind.

12. Guarantees and commitments

The Group provided the following guarantees as at December 31, 2017, 2016 and 2015:

Guarantees issued on behalf of associated companies	As at December 31, 2017	As at December 31, 2016	As at December 31, 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.	9,169	10,478	11,905
Surety issued to Cassa di Risparmio di Firenze in favour of Vaserie Energia S.r.l.	895	895	895
Guarantee issued to BPER and Crédit Agricole Cariparma in favour of Blugas Infrastrutture S.r.l. for investments	0	5,633	5,633
Guarantee issued to Unicredit in favour of Blugas Infrastrutture S.r.l. for investments	4257		
Guarantee issued to Sace BT in favour of Blugas Infrastrutture on VAT credit reimbursement	664	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	**14,985**	**19,850**	**27,157**

Guarantees granted in the interests of others	As at December 31, 2017	As at December 31, 2016	As at December 31, 2015
Sureties issued to the Italian Tax Agency/Customs Agency for tax repayments	4,016		
Sureties to other entities	1,002		
Sureties issued on behalf of local entities for work on concessions relating to the use of public land	6,988	5,507	2,188
Sureties issued to INPS	1,801	2,156	987
Surety issued to GSE for connection of the Andali wind park	4,410	4,410	4,410
Total	**18,217**	**12,073**	**7,585**
Total guarantees	**33,202**	**31,923**	**34,742**

For the performance of ordinary Group activities, in the interest of fully consolidated companies, bank sureties or other guarantees, such as Parent Company commitments, have also been issued, for which the relative debt is generally already included in the Consolidated Financial Statements.

13. Objectives 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 short-term deposits 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 recognised 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.

13.1 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, 2017, after taking into account the effect of IRS, approximately 60% (65% in 2016) of the Group's loans are fixed-rate.

13.2 Interest rate sensitivity

The following table illustrates the sensitivity to a reasonably possible variation of interest rates made in the following ways:

- an increase and decrease of 50 basis points of the Euribor interest rates recorded during the financial year was applied to long-term financial debt;
- in the event that a hedging relationship exists, the interest rate shock has been applied together with the debt position and the related hedging derivative instrument with an extremely limited net effect on the Income Statement;
- 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 carried out in reference to December 31, 2017 and 2016:

SENSITIVITY OF CASH FLOWS	December 31, 2017				December 31, 2016			
	FINANCIAL EXPENSES		CASH FLOW HEDGE RESERVE		FINANCIAL EXPENSES		CASH FLOW HEDGE RESERVE	
	INCREASE 50 BP	DECREASE 50 BP	INCREASE 50 BP	DECREASE 50 BP	INCREASE 50 BP	DECREASE 50 BP	INCREASE 50 BP	DECREASE 50 BP
TOTAL DERIVATIVES AND LEASING DEBTS	(323)	(59)			(211)	(133)		
FAIR VALUE VARIATION	152	156	122	(116)	202	207	216	(197)
TOTAL	(171)	(97)	122	(116)	(9)	(74)	216	(197)

13.3 Credit risk

Credit risk is the risk that a counterparty will not fulfil its obligations to 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 deriving from the sale of gas and electricity) 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 in reference to the portfolio in existence at the publication date of the Financial Statements, deemed to represent the greatest exposure for the Group, methods for monitoring and controlling credits have been defined, along with the definition of strategies to reduce credit exposure such as solvency analyses of new customers through a credit analysis aimed at limiting the risk of insolvency, the assignment of credit owed by former customers to external credit recovery agencies, and the management of legal disputes for receivables relating to services rendered.

At each balance sheet date an analysis is carried out to assess the need for individual write-downs for major customers. In addition, for most minor receivables, grouped into categories, an assessment is made regarding the need for a total value reduction. The calculation is based on historical data. The maximum exposure to credit risk at the date of the financial statement is the book value of each class of financial asset as shown in the "Trade Receivables" Note.
The following table provides the details of gross trade receivables and the relative impairment provisions as at December 31, 2017, 2016 and 2015:

Trade receivables	**As at December 31,**					
(values in thousands of Euro)	**2017**		**2016**		**2015**	
Gross trade receivables	341,843	100%	345,907	100%	279,216	100%
Bad debt reserve	(47,813)	-14%	(45,499)	-13%	(27,808)	-10%
Trade receivables	**294,030**	**86%**	**300,408**	**87%**	**251,408**	**90%**

The following table provides the details of gross trade receivables by age as at December 31, 2017, 2016 and 2015:

Trade receivables	**as at December 31,**					
(values in thousands of Euro)	**2017**		**2016**		**2015**	
Current	231,706	68%	260,928	75%	235,810	84%
Expired 0-30 days ago	29,159	9%	13,826	4%	6,233	2%
Expired 31-90 days ago	8,672	3%	9,477	3%	3,722	1%
Expired 91-180 days ago	6,304	2%	11,607	3%	6,205	2%
Expired 181-365 days ago	20,295	6%	16,960	5%	10,785	4%
Expired over 365 days ago	45,707	13%	33,109	10%	16,461	6%
Gross trade receivables	**341,843**	**100%**	**345,907**	**100%**	**279,216**	**100%**

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 minimise 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 as at December 31, 2017 corresponds to the book values shown in the Financial instruments and fair value measurements Note, with the exception of financial guarantees.

13.4 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 centralised in order to optimise the collection and use of financial resources. In particular, the centralised management of cash flows in the Group, either through a cash pooling system or by a system of centralisation of the Group's current accounts of pre-emption of payments and receipts, enables the allocation of available funds at Group level as needed according to the needs of the individual companies which may arise from time to time. The current and prospective financial situation and the availability of adequate bank credit are constantly monitored. Through the relationships held by the Group with the major Italian and International Credit Institutions, the most suitable forms of financing are tailored to their needs and the best market conditions.

The table below provides the analysis of the expiries based on the contractual repayment obligations not yet realised in reference to bond loans, long-term bank loans, leasing arrangements and long-term loans to shareholders as at December 31, 2017.

(values in thousands of Euro)	Total cash flow	CF < 1 Y	1 Y < CF < 2 Y	2 Y < CF < 5 Y	CF > 5 Y
Bond loans	218,200	-	38,200	100,000	80,000
Bank debts	203,787	65,507	43,672	84,875	9,733
Leasing	5,747	558	553	1,637	2,999
Long-term loans to shareholders	12,545	1,435	1,435	4,305	5,370
Total	**440,279**	**67,500**	**83,860**	**190,817**	**98,102**

13.5 Default risk and covenant

The Group has established bank and bond loans whose contractual conditions include, in line with the market for this type of instrument, provisions that grant to counterparties, be they banks or bondholders, subject to the occurrence of certain events, the right to ask the debtor for the immediate repayment of the loans.
These contractual conditions, usually in the favour of the bondholders/credit institutions, prohibit change of control and require compliance with financial parameters such as the net financial Indebtedness /EBITDA, net financial Indebtedness /RAB and Net financial Indebtedness /Shareholders' Equity ratios.
A detailed breakdown of the net financial Indebtedness as at December 31, 2017, 2016 and 2015 derived from the Consolidated Financial Statements for the years ended at the same dates is provided below, in line with the "ESMA Update to the CESR Recommendations. The consistent implementation of Commission Regulation (EC) no. 809/2004 implementing the Prospectus Directive" of March 20, 2013 (formerly CESR Recommendation 05-054b of February 10, 2005).

	Net financial Indebtedness (values in thousands of Euro)	As at December 31, 2017	2016	2015
A.	Cash	20	16	12
B.	Cash equivalents	229,754	299,220	281,392
C.	Trading securities	-	-	-
D.	**Liquidity (A) + (B) + (C)**	**229,774**	**299,236**	**281,404**
E.	Current financial receivable	**12,259**	**28,648**	**18,168**
	- current financial derivative instruments	*11,634*	*28,564*	*17,817*
	Bank receivables for active interests	*625*	*84*	*351*
F.	Current bank debt	10,322	115,815	104,547
G.	Current portion of non-current debt	67,263	52,143	48,642
H.	Other current financial debt	13,131	30,862	19,874
	- current financial derivative instruments	*13,131*	*30,862*	*19,874*
I.	**Current financial debt (F) + (G) + (H)**	**90,717**	**198,820**	**173,063**
J.	**Net current financial debt (I) - (E) - (D)**	**(151,316)**	**(129,064)**	**(126,509)**
K.	Non-current bank loans	137,783	102,846	127,601
L.	Bond issued	213,922	213,046	146,271
M.	Other non-current loans	16,535	18,915	20,717
	- leasing debts to other capital providers	*5,425*	*6,370*	*6,737*
	- loan debts to shareholders	*11,110*	*12,545*	*13,980*
N.	**Non-current financial Indebtedness (K) + (L) + (M)**	**368,240**	**334,807**	**294,589**
O.	**Net financial Indebtedness (J) + (N)**	**216,924**	**205,743**	**168,080**

As at December 31, 2017 net financial indebtedness amount to Euro 216,924 thousand, an increase on the Euro 205,743 thousand recorded in the previous year.
As at December 31, 2017, 15% of the Group's debt was due to mature in less than one year (33% as at December 31, 2016), calculated on the basis of the notional 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 December 31, 2017 the Group has broad unused credit lines mainly concentrated in the Parent Company which has unused funds for a total of Euro 207 million.

It is noted that the Group has in place bank loans and bond loans whose contractual conditions include, in line with the market for this type of instrument, provisions which grant to counterparties, whether banks or bondholders, the right to demand from the debtor, upon the occurrence of certain events, the immediate repayment of the sums provided.

In particular, the bond loan regulations include:

- commitments undertaken by the Group, including the so-called negative pledge in relation to which the Group pledges to not create or allow the creation, in all or in part, of any restriction to its present or future assets or revenues;
- cases on non-compliance in line with market practices for similar transactions. The latter may include but is not limited to:

non-fulfilment of the obligations arising from court rulings, provided that certain materiality thresholds are exceeded;

a) disposal and/or company reorganisation operations (including dissolution and liquidation as well as sale total or significant sale of its assets) not included among permitted operations, as well as the dissolution or liquidation of the Group or its significant subsidiaries; and
b) change of control, in respect of which, following the notification of the exercise of the put option by bondholders, the Group will have to fully repay the subject of the put option at the nominal value of the bonds, as well as any interest accrued since the previous interest payment date.

The bond loan regulations also state that the Group must respect determined financial/asset ratios for the entire validity of the loan, compliance with which is verified on an annual basis on the closure date of each financial year based on the results of the Consolidated Financial Statements. Failure to comply with these parameters could result in the suspension of the loan for the remaining term and the obligation of early repayment of the same by the debtor.

The financial limits subject to these regulations are mainly as follows:

- the ratio between net financial indebtedness and EBITDA (more than 4.5x);
- the ratio between net financial indebtedness and RAB (more than 0.85x);
- the ratio between net financial indebtedness and Shareholders' Equity (less than 1.2x);
- the ratio between EBITDA and interest expenses (more than 3.3x).

Furthermore, such bond loans contain cross default clauses referring to Group or its subsidiaries in the case of non-compliance for amounts exceeding the thresholds respectively provided for in each regulation.

Finally, in line with market practices for similar operations, the bond loans provide for the Group's compliance with a series of negative content obligations, or limitations on the possibility of carrying out certain transactions; these may include but are not limited to:

- assumption or guarantee of additional financial debt, except in the cases provided by each regulation;
- disposal of a significant portion of its assets;
- investments, payments, creation or authorisation of restrictions, imposition of limitations to the rights of subsidiaries to pay dividends, transfer or dispose of certain assets, enter into mergers or engage other extraordinary operations and operations with affiliates.

Furthermore, the specific limitations of the bond loan issued in 2014 are given below:

- distribution of available reserves and profit for the year up to a limit of 75% of the annual gains achieved and available for distribution, provided that there is no active or pending event as at the distribution date that offer grounds for early repayment;
- operations to reduce the share capital of the Group, except in the cases provided by law; and
- extraordinary operations of any kind, including but not limited to extraordinary company capital transactions, corporate transformation operations, mergers or demergers, except for permitted operations (such as listing, operations characterised by institutional investments in the share capital of the Group, consisting of the temporary acquisition by a specialist financial investor of a percentage of share capital of the Group, aimed at generating to long term capital gains [cash increases in share capital]).

Furthermore, existing bank loans envisage specific obligations (in certain cases, these may also refer to Group companies), according to which the Group undertakes to:

- not utilise the amounts received in virtue of the contract for purposes other than those agreed;
- not modify its business activities in a significant way;
- not carry out extraordinary or asset disposal operations other than those expressly agreed (without prejudice to the prior written consent of the granting bank, where applicable);
- not create nor allow the creation of limitations and restrictions to its assets, other than the limitations and restrictions expressly permitted (negative guarantee); and
- maintain all authorisations, permits and administrative licences necessary or opportune to the regular performance of the Group's activities;
- not give rise to situations of change of control.

Furthermore, certain finance contracts signed by the Group also state that the Group must respect determined financial/asset ratios for the entire validity of the loan (similar to those contained in Bond Loan Regulations indicated above). compliance with which is verified on an annual basis on the closure date of each financial year based on the results of the Consolidated Financial Statements or the Financial Statement of the Group company under contract. Failure to comply with these parameters could result in the suspension of the loan for the remaining term and the obligation of early repayment of the same by the debtor.

The financing contracts also provide for a series of situations that result in default (which in certain cases may also apply to Group companies), including:

- insolvency, or submission to a bankruptcy procedure (or similar);

- cross-default clauses (and in certain cases cross-acceleration clauses) for amounts greater than the determined materiality thresholds;
- the performance of extraordinary share capital operations (not including listing) without the prior written consent of the granting bank;
- events which determine a serious stability or liquidity crisis in the financial markets that make the loan excessively onerous to the granting bank; and
- the non-fulfilment of any of the obligations of the Group (including the breach of any of the financial limits prescribed by the financing contract), unless such non-compliance, if resolvable, is resolved within the permitted period.

In the 2017, 2016 and 2015 financial years, no breaches to the covenants of financial loans and bond loans were recorded.

14. Related parties

The following tables detail the economic and financial arrangements entered into with related parties in the financial years ending on December 31, 2017, 2016 and 2015. Related parties include shareholders, subsidiary companies, companies under joint control and associates controlled directly or indirectly by Estra S.p.A.:

	Year ended as at December 31, 2017								
Related party/Accounting item	**Revenues from sales and services**	**Other income**	**Purchases of goods, raw materials and ancillary materials**	**Costs for services**	**Costs for leased third-party assets**	**Wages and salaries**	**Other operating expenses**	**Financial income**	**Financial expenses**
Consiag S.p.A.	1,083	423			1,022		5		366
Intesa S.p.A.	644	479		11	633				
Coingas S.p.A.	137	16	35		365				43
Multiservizi S.p.A.				23					
Shareholders	**1,864**	**918**	**35**	**33**	**2,021**		**5**		**409**
EDMA Reti Gas S.r.l.	562	806	14	10,394			18		
Nuova Sirio S.r.l.	24	4							
Idrogenera S.r.l.	9	1							
EDMA S.r.l.	776	284		2,364		12			
Companies under joint control	**1,371**	**1,094**	**14**	**12,758**		**12**	**18**		
Blugas Infrastrutture S.r.l.		14						207	
Sangro Servizi S.r.l.	76	7							
Monte Urano S.r.l.		1							
Gas Marca S.r.l.		1		27					
A.E.S. Fano Distribuzione Gas S.r.l.		34		16					
Associates	**76**	**57**		**43**				**207**	
Total	**3,311**	**2,070**	**49**	**12,834**	**2,021**	**12**	**23**	**207**	**409**
Percentage impact on the corresponding accounting item	***0.34%***	***5.54%***	***0.01%***	***9.58%***	***15.72%***	***0.04%***	***0.07%***	***6.20%***	***2.33%***

Related party/Accounting item	Year ended as at December 31, 2016						
	Revenues from sales and services	Other income	Costs for services	Costs for leased third-party assets	Other operating expenses	Financial income	Financial expenses
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
Shareholders	**2,684**	**1,031**	**207**	**2,025**	**3**		**458**
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					
Companies under joint control	**3,709**	**1,035**	**19,266**				
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					
Associates		**268**				**182**	
Total	**6,393**	**2,334**	**19,473**	**2,025**	**3**	**182**	**458**
Percentage impact on the corresponding accounting item	***0.63%***	***6.27%***	***15.69%***	***16.57%***	***0.01%***	***4.09%***	***3.40%***

Related party/Accounting item	Year ended as at December 31, 2015						
	Revenues from sales and services	**Other income**	**Expenses for raw materials**	**Costs for services**	**Costs for leased third-party assets**	**Financial income**	**Financial expenses**
Consiag S.p.A.	1,033	209			1,026		449
Intesa S.p.A.	1,602	1,025		36	603	1	
Coingas S.p.A.	87	192		47	371		54
Shareholders	**2,722**	**1,426**		**83**	**2,000**	**1**	**503**
Publies S.r.l.	305			68		5	
Companies under joint control by Shareholders	**305**	**0**		**68**		**5**	
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				-	
Companies under joint control	**81,969**	**1,976**	**711**	**909**		**487**	
Blugas Infrastrutture S.r.l.		25				155	
Montedil S.r.l.						1	
Cavriglia SPV S.p.A.		139					
Tegolaia SPV S.p.A.		95					
Associates		**259**				**156**	
Total	**84,996**	**3,661**	**711**	**1,060**	**2,000**	**649**	**503**
Percentage impact on the corresponding accounting item	***10.06%***	***4.76%***	***0.11%***	***1.60%***	***12.68%***	***15.62%***	***3.89%***

Related party/Accounting item	As at December 31, 2017			
	Trade receivables	**Other non-current financial assets**	**Trade payables**	**Current and non-current financial debt**
Consiag S.p.A.	1,333			11,250
Intesa S.p.A.	599		391	
Coingas S.p.A.	44		50	1,295
Multiservizi S.p.A.	75		2,376	
Shareholders	**2,051**		**2,817**	**12,545**
EDMA Reti Gas S.r.l.	10,219		2,342	
Nuova Sirio S.r.l.	34	150		
Idrogenera S.r.l.	34	257		
Companies under joint control	**10,287**	**407**	**2,342**	
Monte Urano S.r.l.	1			
Blugas Infrastrutture S.r.l.	839	4,153		
A.E.S. Fano Distribuzione Gas S.r.l.	961		2	
Casole Energie S.r.l.	79			
Sangro Servizi S.r.l.	84			
Gas Marca S.r.l.	1		5	
Associates	**1,964**	**4,153**	**7**	
Total	**14,303**	**4,560**	**5,165**	**12,545**
Percentage impact on the corresponding accounting item	***4.86%***	***47.70%***	***2.46%***	***2.88%***

Related party/Accounting item	As at December 31, 2016			
	Trade receivables	**Other non-current financial assets**	**Trade payables**	**Current and non-current financial debt**
Consiag S.p.A.	1,416			12,500
Intesa S.p.A.	1,958		66	
Coingas S.p.A.	55		61	1,480
Shareholders	**3,429**		**127**	**13,980**
EDMA Reti Gas S.r.l.	4,213		5,178	
EDMA S.r.l.	1,816		6,964	
Nuova Sirio S.r.l.	5	5		
Idrogenera S.r.l.	24			
Companies under joint control	**6,058**	**5**	**12,142**	
Roma Oil Company S.r.l.	87			
Monte Urano S.r.l.	3			
Blugas Infrastrutture S.r.l.	611	4,153		
A.E.S. Fano Distribuzione Gas S.r.l.	34			
Piceno Gas Vendita S.r.l.	11			
Cavriglia SPV S.p.A.	284	2,183		
Tegolaia SPV S.p.A.	87	1,161		
Associates	**1,117**	**7,497**		
Total	**10,604**	**7,502**	**12,269**	**13,980**
Percentage impact on the corresponding accounting item	***3.53%***	***100.00%***	***6.30%***	***3.61%***

Related party/Accounting item	As at December 31, 2015			
	Trade receivables	Other non-current financial assets	Trade payables	Current and non-current financial debt
Consiag S.p.A.	597		374	13,750
Intesa S.p.A.	910		105	
Coingas S.p.A.	154		347	1,665
Shareholders	**1,661**		**826**	**15,415**
Publies S.r.l.	172		855	
Companies under joint control by Shareholders	**172**		**855**	
EDMA Reti Gas S.r.l.	1,718		319	
EDMA S.r.l.	4,422		5,497	
Nova E S.r.l.	88	1,270		
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			
Companies under joint control	**9,501**	**1,270**	**6,723**	
Montedil S.r.l.	1	63		
Roma Oil Company S.r.l.	95			
A.E.S. Fano Distribuzione Gas S.r.l.	53			
Blugas Infrastrutture S.r.l.	406	2,099		
Cavriglia SPV S.p.A.	370	2,183		
Tegolaia SPV S.p.A.	144	1,161		
Associates	**1,069**	**5,506**		
Total	**12,403**	**6,776**	**8,404**	**15,415**
Percentage impact on the corresponding accounting item	***4.93%***	***100.00%***	***4.81%***	***4.49%***

Description of major related-party transactions

The main transactions with related parties, made according to the same criteria and relating to transactions with Shareholders, companies under joint control and associates, are summarised below:

Main transactions with shareholders

- Current service contracts with shareholders Consiag S.p.A., Coingas S.p.A. and Intesa S.p.A. (the "**Service contracts**");
- Repayment of personnel costs seconded by Companies of the Estra Group to Consiag S.p.A. and Intesa S.p.A.;
- Leasing contracts for the rental of company offices of the Estra Group in Prato, Arezzo and Siena by the shareholders Consiag S.p.A., Coingas S.p.A. and Intesa S.p.A. (the "**rental contracts**");
- Current financing contracts with shareholders Consiag S.p.A., Coingas S.p.A. and Intesa S.p.A. (the "**Financing contracts**");
- Contract for the sale of electricity to the shareholder Intesa S.p.A. for the use of public lighting systems of which Intesa S.p.A is the operator appointed by the Municipalities.

Major transactions with companies under joint control

- Service contracts for services rendered by Estra Group companies to EDMA and EDMA Reti Gas in the 2017, 2016 and 2015 financial years, and services rendered by EDMA to Prometeo in 2016;
- Contracts for the sale of natural gas and electricity to Prometeo in 2015;
- Costs of gas distribution services provided by EDMA Reti Gas to the Group companies Estra Energie and Prometeo in 2017, 2016 and 2015.

Major transactions with associated companies

- Contracts for the provision of long-term loans aimed at supporting operating activities and investments of associated companies. For more details, refer to the commentary to the item "Non-current financial assets"

In particular, the "**Service Contracts**" regulate the continuing provision by ESTRA of administrative and technical services for Shareholders and some of their investees. Specifically, these services relate to Administration and Accounting, Finance, Legal and Corporate Affairs, IT and secretarial, protocol and archiving activities.
The contracts are valid for one year and are subject to tacit renewal for an equal length of time; fees are determined on the basis of market values in compliance with the Regulatory Accounting legislations regulated by AEEGSI.
In its provision of services, ESTRA undertakes to provide the services envisaged by the contract according to the standards and regulations prescribed by company procedures and practices, in compliance with legitimate methods and procedures and according to the standards of competency, diligence, prudence and caution expected of experienced and competent entity charged with the provision of such circumstances under similar conditions. The contracts include an obligation of mutual cooperation, in line with the criteria of correctness and good faith, and coordination for both parties in order to guarantee the quality, efficiency and cost-effectiveness of the services provided. The fees recognised by shareholders in the 2017 financial year were Euro 1,864 thousand.

The "Rental contracts" regulate the lease expenses for the rental of company offices of the Estra Group in Prato, Arezzo and Siena by the shareholders Consiag S.p.A., Coingas S.p.A. and Intesa S.p.A.. The contracts are valid for six years, with a tacit renewal clause for an additional six years. The first six year period of all leasing contracts had elapsed as at December 31, 2017. The fees recognised by shareholders in the 2017 financial year were Euro 2,021 thousand. The fees are subject to annual renewal in view of the 75% variation in the ISTAT cost of living indicator recorded in the previous year.

The **"Financing contracts"** relate to two existing loans between ESTRA and the shareholders Consiag S.p.A. and Coingas S.p.A., which have the following characteristics:
- Financing contract with the Shareholder Consiag S.p.A. for an original Euro 15,000 thousand, repayable in 24 half-yearly instalments from June 30, 2015, with a constant capital increases at an annual rate of 3% and a residual debt as at December 31, 2017 of Euro 11,250 thousand;
- Financing contract provided by the Shareholder Coingas S.p.A. for an original Euro 1,850 thousand, repayable in 20 half-yearly instalments from June 30, 2015, with constant capital increases at an annual rate of 3% and a residual debt as at 31 December 2017 of Euro 1,295 thousand.

Estra reserves the right to settle all or part of its debt at any time by way of addition payments to those of the half-yearly instalments, without penalties of any kind.
Delayed payment refers to payments made between the fourth and one hundred and eightieth day of the instalment due date. After the one hundred and eightieth day, "non-payment" is considered and as such even a single instalment that exceeds this delay constitutes the right of the creditor to request the repayment of the entire debt.
In the case of delayed payment of instalments, in addition to the standard 3% the repayment will be subject to interest on arrears at a rate of 4% or the commercial default rate, whichever is the lower.

- **Managers with strategic responsibilities**

The total amount paid for any reason and in any form in the financial year ending at December 31, 2017 by the Estra Group to Strategic Managers is Euro 715 thousand, including to the General Manager Paolo Abati, who is both a strategic manager as well as a member of the Board of Directors.

15. Compensation for directors, statutory auditors and independent auditors

The following table shows the compensation for directors, statutory auditors and independent auditors in the 2017, 2016 and 2015 financial years.

Beneficiaries	December 31, 2017			December 31, 2016			December 31, 2015		
	Of the Parent Company	Of other Group Companies	Total	Of the Parent Company	Of other Group Companies	Total	Of the Parent Company	Of other Group Companies	Total
Directors	306	435	741	270	291	561	277	254	531
Board of Statutory Auditors	133	291	424	132	293	425	136	218	354
Independent Auditors	110	233	343	63	208	271	83	225	308

The compensation figures for the 2017 financial year recognised to the Independent Auditors and the entities within its network, including “other services” provided to Estra S.p.A. and its subsidiaries by the Independent Auditor EY S.p.A. and entities within its network are given below. No assignments have been assigned to EY S.p.A. other than those permitted by applicable regulations.

Type of service	Provider of the service	Recipient	Compensation in 2017 (in thousands of Euro)
Statutory audit	Auditor of the Parent Company	Parent company	65
		Subsidiaries	179
Certification services (1)	Auditor of the Parent Company	Parent company	45
		Subsidiaries	19
Other services	Auditor of the Parent Company	Parent company	18
	Network of the Auditor of the Parent Company (2)	Parent company	29

(1) The certification services refer to the audit of the reports prepared for the purposes of Resolution no. 137 on March 24, 2016 by the Italian Regulatory Authority for Electricity Networks and Environment (ARERA; formerly AEEGSI) with regards to Parent Group and its subsidiaries and the audit of the Non-Financial Statement solely with regards to the Parent Company

(2) Total matured as at December 31, 2017.

16. Subsequent events

16.1 Shareholders’ Meeting approval of the application for admission to listing and request to publish the information prospectus

At the meeting onMarch 05, 2018, the Shareholders’ Meeting approved (i) the draft application for the listing of Estra shares on the Italian Equities Market (MTA) operated by Borsa Italiana S.p.A.; (ii) the draft application to CONSOB for the publication of the Information Prospectus and (iii) the adoption of the new regulation for the operation of the Meeting, subject to the commencement of trading of Estra shares on the MTA.

In the same session, the Extraordinary Shareholders’ Meeting also approved a new text for the corporate by-laws so as to bring this in line with applicable legislation on companies with shares listed on the Mercato Telematico Azionario, with effect conditional on Estra shares beginning trading on the MTA.

16.2 Partial repurchase of Estra Bonds for a nominal value of Euro 30 million.

On March 3, Estra completed the partial repurchase transaction on the bonds relating to the bond loan referred to as 'E.S.TR.A. S.p.A. Euro 80,000,000, 2.45 per cent. Guaranteed Notes due 2023 (private placement)" guaranteed by the subsidiary Centria S.r.l and issued on November 28, 2016, underwritten by institutional investors and listed on the regulated market operated by the Dublin Stock Exchange.

Estra repurchased Bonds for a nominal value of Euro 30 million, through a transaction of a total value of Euro 31.5 million, as well as interest accrued and not yet paid for Euro 189,287.67.

Subsequent to the repurchase, the total amount in circulation with the bonds is now a nominal Euro 50 million, representing 62.5% of the overall nominal amount for the bonds originally issued.

Prato, March 5, 2018

On behalf of the Board of Directors
Chairman of the Board of Directors
Francesco Macrì

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

Consolidated financial statements as at December 31, 2017

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
E.S.TR.A. S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the E.S.TR.A. Group (the Group), comprised of the consolidated statements of financial position as at December 31, 2017, 2016 and 2015, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, 2016 and 2015, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Other matters

The consolidated financial statements of E.S.TR.A. Group refers to the financial year ended as of December 31, 2017 and include the comparative figures for the years ended as of December 31, 2016 and December 31, 2015. With reference to these comparative figures, this report is issued with the solely purpose of their inclusion in the documentation used in the process for placement and listing of ordinary shares of E.S.TR.A. S.p.A. on the italian “Mercato Telematico Azionario”.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended at December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters for the year ended as at December 31, 2017:

Key Audit Matter	Audit Response
Revenue recognition for unbilled gas and electricity sales Revenues from sales and services include the estimated revenues accrued for the sale of gas and electricity already delivered to the customers but unbilled as at December 31, 2017, in addition to revenues already invoiced to the customers, measured on the basis of pre-established meter reading schedules, effective or estimated, during the year. The estimated revenues accrued but unbilled are recorded within trade receivables, as accruals for invoices to be issued. Revenue recognition for sales accrued but unbilled involves estimates based on processes and evaluation methodologies developed on complex assumptions. The methodologies used by the Group to estimate gas and electricity consumptions between the date of the last meter reading of each customer and the 31st of December, and therefore to estimate revenues to be accrued, are based on assumptions and complex calculation algorithms, which involve a combination of data extracted from the information systems and non-accounting data. In particular, the estimate of revenues accrued but unbilled is determined as the difference between the consumptions already invoiced to the customers at the end of the year and the quantity of gas and electricity allocated in the distribution network, considering the data communicated at end of the year by the service distributors, subject to potential period end adjustments; such difference is then prized, based on the customer's cluster, on the basis of gas and electricity volumes already invoiced and the related average fee used during the year.	Our audit procedures responsive to this key audit matter included, among others: · assessment of the process and key controls, including controls related to information technology, implemented by the main entities of the Group for the recognition process of gas and electricity sales, and test of key controls, including controls related to estimated and actual volumes billed to the customers; · testing, on a sample basis, of the data used by management to determine revenue accruals for sales unbilled, including information communicated by service distributors on the volumes allocated in the distribution network, data extracted from the information systems, and testing of the arithmetic accuracy; · analysis of the assumptions used by the Management, also compared to the previous year; · look-back analyses of the prior year estimate against the data subsequently reported, and analysis of the variances in order to support the accuracy of the current estimation process. Lastly, we reviewed the adequacy of the disclosures included in the notes to the financial statements.

Considering the complexity of the estimate of revenues accrued but unbilled, we have determined that this area constitutes a key audit matter.

The disclosures included in note "Significant accounting estimates" of the consolidated financial statements as of December 31, 2017 describe the revenues recognition principles adopted by the Group for gas and electricity sales.

Business Combination

During the financial year 2017, the Group has completed certain business combinations and acquisition of non-controlling interests, regulated both by cash and by shares of the Parent Company, aimed at the Group's growth in the market and consolidation of its position in central Italy.

The acquisition agreements and the related accounting implications are sometimes complex. The processes and accounting policies for acquisition transactions are based on assumptions, which by their nature require Management's judgment, in particular with reference to the allocation of purchase price to fair values of the assets acquired and liabilities assumed, the alignment of the accounting principles of the acquiree with those of the Group, the identification of the fair value of the non-controlling interests and the determination of the results since the acquisition date for the purpose of their inclusion in the consolidated financial statements of the Group.

Considering the relevance and complexity of certain business combinations and acquisition of non-controlling interests concluded during the fiscal year, and related judgment required, we have determined that this area constitutes a key audit matter.

The disclosures included in note "Business combinations and disposals of assets, and acquisition and disposal of non-controlling interests – Year ended as at December 31, 2017" of the consolidated financial statements

Our audit procedures responsive to this key audit matter, depending on the nature of the acquisition, included, among others:

- analysis of the executed acquisition agreements in order to gain an understanding of key terms and conditions;
- assessment of the accounting treatment of these acquisitions;
- testing of the fair value estimate of the identified assets acquired and liabilities assumed at the acquisition date, and the fair value of the non-controlling interests;
- analysis of the reports provided by Management's specialists that assisted the Group in determining the fair value, including the assessment of their competence, capability and independence;
- assessment of the financial forecasts of the entity acquired and of the reasonableness of the assumptions used in the valuation, such as growth rate and discount rate, also involving our valuation specialists.

Lastly, we reviewed the adequacy of the disclosures included in the notes to the financial statements in relation to these acquisitions.

as of December 31, 2017 describe the business combinations, the acquisition of non-controlling interests and related accounting implications.

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

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company E.S.TR.A. S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Among the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the year ended as of December 31, 2017 and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of E.S.TR.A. S.p.A., in the general meeting held on January 12, 2017, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2016 to December 31, 2024.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the Collegio Sindacale in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

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Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of E.S.TR.A. S.p.A. are responsible for the preparation of the Report on Operation and the specific section including the information on corporate governance as provided for by article 123-bis, paragraph 2, subparagraph d) of Legislative Decree n. 58 of Group E.S.TR.A. as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific section including the information on corporate governance as provided for by article 123-bis, paragraph 2, subparagraph d), of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of E.S.TR.A. Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific section including the information on corporate governance are consistent with the consolidated financial statements of E.S.TR.A. Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of E.S.TR.A. S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information for the year ended December 31, 2017 have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Florence, March 20, 2018

EY S.p.A.
Signed by: Beatrice Amaturo, partner
This report has been translated into the English language solely for the convenience of international readers.