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

Registered office in Via Ugo Panziera 16, 59100 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

MANAGEMENT REPORT ON THE

CONSOLIDATED FINANCIAL STATEMENTS 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.

1. SUMMARY OF THE FINANCIAL YEAR

The Estra Group closed 2017 fiscal year with total adjusted revenues of Euro 1,017 million (-2% compared to the previous year), EBITDA of Euro 87.7 million and Adjusted EBITDA, stated net of costs and non-recurring revenues of Euro 86.7 million. Net income for the Group is equal to Euro 16.1 million.
Net financial Indebtedness as of December 31, 2017 amount to Euro 216.9 million, increasing by about Euro 11.2 million.

The Estra Group closed 2016 fiscal year with total adjusted revenues of Euro 1,0404 million (-2% compared to the previous year), EBITDA of Euro 86.6 million and Adjusted EBITDA, net of costs and non-recurring revenues of Euro 82.6 million (up by 38.4% on 2015). Net income for 2016 was Euro 15.1 million.
Net financial Indebtedness as of December 31, 2016 amounted to Euro 205.7 million, increasing by about Euro 37.7 million.

In 2017, Estra continued to grow through industrial operations and commercial development policies. In particular, the Group acquired the remaining 55% of Piceno Gas Vendita S.r.l., a company selling natural gas to approximately 25,000 end customers in 37 Municipalities in the Provinces of Ascoli Piceno and Teramo, thus reaching a stake of 100% in the company. In addition, continuing the process initiated in 2014 based on the joint venture with Multiservizi, Estra took a further step at the end of the year towards consolidating its presence in the Mid Adriatic, allowing Multiservizi entry into its share capital.

Thanks to these operations developed over time and the implementation of commercial growth strategies across the country, the Estra Group has extended its portfolio, to reach an overall share of nearly 725 thousand customers.

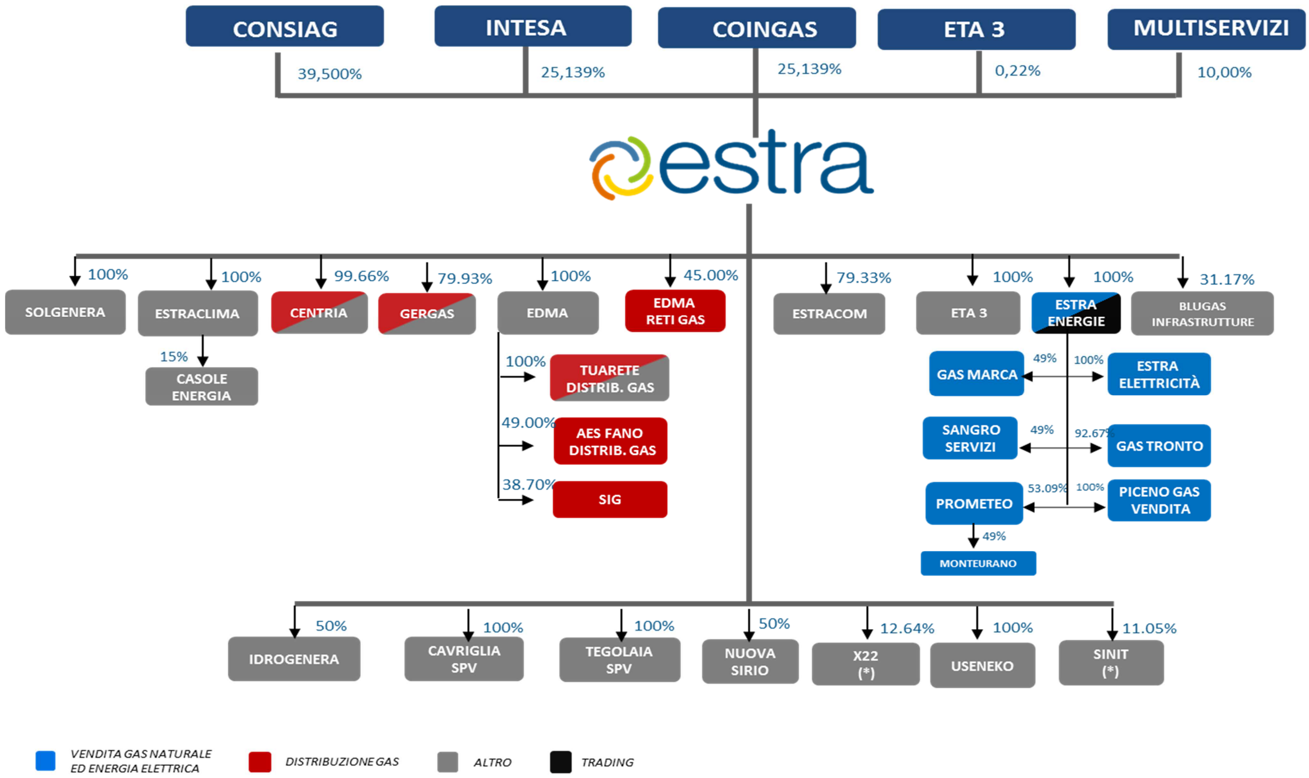
Insofar as natural gas distribution is concerned, given its participation in the ATEM tenders (Minimal Territorial Scope), Estra has continued to invest in extending networks and developing know-how to consolidate its presence in its historic territories. Furthermore, regulations requiring the replacement of traditional gas meters with smart meters have provided the impetus for projects to analyse new technology networks.

In recent years, the Group has also extended its approach to traditional business sectors with the contribution provided by the ICT-IT (Information and Communication Technologies) departments. By also taking advantage of the transversal nature of the competencies it has acquired in various business sectors, the Group, together with other nationally significant operators, was awarded the tender in 2017 by the Ministry of Economic Development for the 5G trials in the city of Prato. This activity will play a fundamental role in developing future innovative Estra projects in the scope of the *internet of things*.
Within the energy efficiency sector, the Group has implemented projects in its capacity as an Esco, and consolidated its positioning in the field of renewable energies, with the investment that resulted in acquiring 100% of the companies Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A., the largest photovoltaic parks in Tuscany and one of the most extensive in Italy.

Also in 2016, Estra recorded remarkable growth through industrial operations and commercial development policies. Specifically, the Group finalised two significant M&A transactions with the companies Coopgas S.r.l. and Prometeo S.p.A.: in February 2016, an agreement was signed with CPL Concordia Company for the acquisition of 100% of the gas and electricity sales company, Coopgas S.r.l.. In April 2016, the Estra Group gained control, through Estra Energie S.r.l., of the sales company Prometeo S.p.A. (59.59%), the main subsidiary of EDMA S.r.l. operating in the sale of gas and electricity, with the consequent entry of EDMA S.r.l. into Estra Energie S.r.l. share capital (24.47%), following the transfer of the shareholding. Thanks to these operations and because of the implementation of organic growth strategies across the country, Estra Group has reached an overall share of nearly 725 thousand customers, who place it among the top ten Italian utilities in energy sector.
Also to be noted during 2016, (i) the issue of a new bond of Euro 80 million, with the aim of optimising its flexibility and financial strength, (ii) the development of contractual forms focusing on energy efficiency and (iii) participation in the tenders organised by Infratel for the construction and management of ultra-wide bandwidth in the white areas of the Tuscany and Marche regions.

2. GROUP STRUCTURE

The graph below includes the companies controlled directly and indirectly by Estra, and which are part of the Estra Group, with an indication of the investment held in each of these.



(*) Company in liquidation.

VENDITA GAS NATURALE ED ENERGIA ELETTRICA	SALES OF NATURAL GAS AND ELECTRICITY
DISTRIBUZIONE GAS	GAS DISTRIBUTION
ALTRO	OTHER

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

- sales of natural gas and electricity at national level;
- natural gas distribution mainly in the regions of Central Italy;
- natural gas trading on national and foreign platforms;
- the technical and operational management of telecommunications networks and marketing of telecommunication services, the technical and operational management of LPG distribution networks and their marketing, the production of electricity from renewable sources (particularly photovoltaic), the management of district heating systems and heat management services, redevelopment and energy efficiency.

In addition, the Group's activities can be divided into regulated or semi-regulated activities and free market activities:

(a) "regulated and semi-regulated activities", i.e. activities conducted solely by parties holding a concession or authorisation based on which they carry out their operations, up until its expiry, according to economic and contract conditions that are entirely or principally stipulated on the basis of criteria set by the relevant authority. The Group conducts the regulated activity of natural gas distribution, and the semi-regulated activity of LPG distribution and marketing and the production of electricity from renewable sources;

(b) "free market activity", i.e. activity conducted by all sector operators holding the requirements set by applicable legislation, according to economic and contractual conditions that are principally stipulated on the basis of free negotiations between the parties. The Group's free market activities refer to the sales of natural gas and electricity, trading in natural gas, the technical and operational management of telecommunications networks and marketing of telecommunication services, the management of heating systems owned by third parties and heat management services, redevelopment and energy efficiency.

The Group has consolidated its presence in Tuscany, Umbria, Abruzzo, Lazio, Marche and Molise, operating on a national level in the sale of natural gas and electricity. With specific reference to the Marche and Abruzzo regions, the Group is also involved in the sale and distribution of natural gas through associated companies.

3. SIGNIFICANT EVENTS IN FINANCIAL YEAR 2017

3.1 SHARE CAPITAL INCREASE RESERVED TO MULTISERVIZI S.P.A.

During 2014 financial year, the Estra Group has started an important aggregation project with the Multiservizi S.r.l partner of Ancona which saw the establishment of the company EDMA S.r.l., a new industrial player with consolidation and development objectives in terms of gas and electricity sales (mainly through the subsidiary Prometeo S.p.A.), and gas distribution (mainly through the subsidiary EDMA Reti Gas S.r.l.) in Adriatic area.

Following the corporate transactions completed in 2016, EDMA S.r.l. was held at December 31, 2016 for 45% by Estra and for 55% by Multiservizi. The company in turn held:

- 24.47% of Estra Energie, main 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 undertaken extended further during 2017 with the signing in May of an investment contract between Estra and Multiservizi, whereby the parties defined and scheduled the following corporate transactions, planned over two separate time phases:

Phase 1:

a) the demerger of EDMA Reti Gas S.r.l., held for 100% by EDMA S.r.l., with the establishment of a new company called TuArete Gas S.r.l., to which the business unit referring to the management of the natural gas distribution service was transferred, for the Municipalities of Mosciano, Citerna, Reti and Magione, including ownership of the networks and plants, personnel and all relations pertaining to existing concession contracts. The demerger took place on August 7, and took effect from the same date;

b) reduction in EDMA S.r.l. share capital, with the assignment of assets in kind at book value, represented by 100% of the shares in the company EDMA Reti Gas (ERG) with direct beneficiaries being the shareholders Multiservizi for 55% and Estra for 45%, once the demerger of the business unit referred to above had taken place. The allocation took place during the Extraordinary Shareholders' Meeting on August, 7.

Phase 2:

(c) Multiservizi conferring its portion of 55% of the share capital of EDMA S.r.l. to Estra, which on 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 conferral was finalised on December 28, 2017 during the Extraordinary Meeting of Estra shareholders who resolved a share capital increase, without purchase rights pursuant to Art. 2441, paragraph 6 of the Italian Civil Code, up to a maximum of Euro 228,334 thousand, with the offer of 22,834 thousand new issue shares with a nominal value of Euro 1.00 each, with an overall 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 new issue shares were subscribed to by Multiservizi with the contribution in kind, for a total of Euro 42,480 thousand based on the following activities:

(i) full ownership of a portion representing 55% of the share capital of EDMA S.r.l.;

(ii) full ownership of a property located in Ancona, Via Trieste 2;

(iii) full ownership of the receivables due to Multiservizi for the rendering of services to EDMA S.r.l. for a nominal value of Euro 1,871 thousand, and the receivables due to Multiservizi from users for the rendering of integrated water services for a nominal value of Euro 930 thousand, in both cases with payment terms within twelve months; and

(iv) full ownership of the application software licences that are specific to the administrative and accounting management of multi-utilities, necessary for EDMA S.r.l. to provide its services.

Pursuant and to all effects of Art. 2343 ter, paragraph 2, letter b) of the Italian Civil Code, an appraisal report was issued by Mr Paolo Stizza, registered with the Association of Certified Accountants of the Province of Macerata and Camerino, certifying that the value of the assets being transferred is at least equal to the value used to determine the share capital and share premium.

The effects of the transfer are described in the paragraph "Business combinations and disposal of assets, and acquisition and disposal of non-controlling interests" in the Notes, to which reference is made.

3.2 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.

The company carries out natural gas sales to approximately 25,000 customers in about 37 municipalities in the Province of Ascoli Piceno and Teramo.

Estra's Consolidated Financial Statements at December 31, 2017 used March 31, 2017 as the consolidation date and included only the income statement of the nine months up to December 31, 2017 for the subsidiary.

The accounting effects of the business combination are detailed in the paragraph "Business combinations and disposal of assets, and acquisition and disposal of non-controlling interests" in the Notes, to which reference is made.

3.3 ACQUISITION OF CAVRIGLIA SPV S.P.A. AND TEGOLAIA SPV S.P.A.

The two companies Cavriglia SPV S.p.A. and Tegolaia SPV S.p.A. were established in 2010 subsequent to the awarding of a tender for concessions referring to the design, construction and management of two photovoltaic plants located in the Municipality of Cavriglia (AR) and the relative associated works, which were funded through project financing. The plants have a capacity of 9,969.60 KWp and 6,988.80 KWp respectively. The concession includes:

a) Planning and management of the works, health and safety coordination during design and execution;

b) The realisation of all the works, services and supplies required to complete the works and make the plant operationing;

c) Ordinary and extraordinary maintenance, replacement and restoration of machines, equipment and devices so as to guarantee the optimal functioning of all related the 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 plant becoming operating).

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.

At the same time as the share transfers, Estra took over the portions of Shareholder funding previously provided by the seller Shareholders, and specifically Euro 2,167 thousand from CCC Soc. Coop in respect of Cavriglia, Euro 511 thousand from Cellini GTC Soc. Coop in respect of Cavriglia; Euro 1,012 thousand from CCC Soc. Coop in respect of Tegolaia, Euro 41 thousand from Consorzio Toscano Cooperativa CTC in respect of Tegolaia.

The accounting effects of the acquisitions are detailed in the paragraph "Business combinations and disposal of assets, and acquisition and disposal of non-controlling interests" in the Notes, to which reference is made.

3.4 ACQUISITION OF INCREMENTAL NON-CONTROLLING INTERESTS IN EXISTING SUBSIDIARIES

The following acquisitions of non-controlling interests during the 2017 financial year are noted:

- 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;

- 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.;

- 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.p.A., for a price of Euro 9,012 thousand, with Estra Energie S.r.l. acquiring full control of the company on the basis of an agreement signed between the parties on October 25, 2017.

  Based on the same agreements, the parties also implemented the wishes of Canarbino S.p.A. to acquire (and the Estra Group to cede) the contracts for the supply of natural gas and electricity in the areas outside of Tuscany. With the reorganisation of the portfolio, Estra Energie and Estra Elettricità sold approximately 11,500 electricity contracts to Canarbino S.p.A. respectively.

- 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. At the same time as the ETA3 shares were acquired from Edison, Estra sold to Edison the 6.5% of the shares in Prometeo S.p.A. for an amount of Euro 3,770 thousand.

The accounting effects of the acquisitions are detailed in the paragraph "Business combinations and disposal of assets, and acquisition and disposal of non-controlling interests" in the Notes, to which reference is made.

3.5 OTHER ACQUISITIONS IN THE GAS SALES SEGMENT

The following acquisitions of shareholdings in companies operating in the gas sales segment during the 2017 financial year are noted:

- Acquisition by Coopgas S.r.l. in March 2017, of 49% of Sangro Servizi S.r.l., with headquarters in Atessa (CH) for a price of Euro 1,777 thousand, subsequent to the awarding of a tender. The company has about 7,000 customers located in the province of Chieti. An appeal by Hera Comm is pending on the award, as detailed under "Main current litigations" in the Notes;

- Acquisition by Estra Energie S.r.l. in January 2017, of 49% of Gas Marca S.r.l., based in Civitanova Marche (MC) for a price of Euro 5,749 thousand. The company has approximately 16,000 customers located in the provinces of Macerata and Fermo;

- Acquisition by Estra Energie S.r.l. in March 2017 of 100% of Verducci Servizi Energie S.r.l., based in Notaresco (TE) at the price of Euro 1,400 thousand. The company has approximately 2,600 customers located in the province of Teramo, and achieved a turnover of Euro 1,431 thousand in the 2016 financial year. The company was merged by incorporation into Estra Energie during the 2017 financial year. The accounting effects of the acquisition are detailed in the paragraph "Business combinations and acquisition of non-controlling interests" in the Notes, to which reference is made.

3.6 RATIONALISATION AND SIMPLIFYING OF GROUP'S STRUCTURE

The rationalisation and simplifying of the Group's corporate structure that had already begun during the previous financial year continued during 2017. Specifically, we note the following transactions that took place during the 2017 financial year:

- The merger of Exo Energy Trading S.r.l. into Estra Energie S.r.l. effective as from October 1, 2017;
- The merger of Vea S.r.l. into Estra Energie S.r.l. effective as from December 31, 2017;
- The merger of Coopgas S.r.l. into Estra Energie S.r.l. effective as from December 31, 2017;
- The merger of Verducci Servizi Energie S.r.l. into Estra Energie S.r.l. effective from November 1, 2017;
- The merger of Biogenera S.r.l. into Estra Clima S.r.l. effective as from November 13, 2017;
- The merger of Serenia S.r.l. into Estra S.p.A. effective as from October 18, 2017;
- The merger of Marche Energie S.r.l. into Prometeo S.p.A. effective as from November 1, 2017.
- The disposal on July 13, 2017 of the 30% interest in Roma Oil Company S.r.l. held by Estra Energie S.r.l., which was no longer deemed to be strategic.
- Acquisition by Estra in December 2017, of the shareholdings in Estra Energie held by ETA3 and EDMA S.r.l. for a total of 45.67%, so that the Parent Company reached full direct control.

3.7 DISPOSAL OF ANDALI ENERGIA S.R.L.

On 15 December 2017, the Group sold its 100% stake in the share capital of Andali Energia S.r.l., the holder of the Sole Authorisation for the construction of a 36 MW wind power plant in the Municipality of Andali (CZ) to the company Sunshine S.r.l.

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 procedure referred to: i) Andali as the proposing party in the application to terminate the *inter partes* concession contract due to Terna's breach, and in particular, Terna's delay in the construction of an electrical station at the Belcastro (CZ) site, in good time to allow Andali to connect the wind farm under construction to the national grid, in compliance with the terms of the single permit and the tariff obtained, with a request to order the compensation for the damages incurred; ii) Terna objected to these conclusions and filed a counterclaim against Andali, amounting to Euro 7,153 thousand, to which Euro 1,700 thousand per year should be added up until the completion of 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.

The accounting effects of the disposal are detailed in the paragraph "Business combinations and disposal of assets, and acquisition and disposal of non-controlling interests" in the Notes, to which reference is made.

3.8 BUSINESS TRANSFERRING FROM ENERGIE OFFIDA S.R.L. TO CENTRIA S.R.L.

Regarding the gas distribution segment, it is noted that on December 28, 2017, with effect from January 1, 2017, Centria S.r.l. approved a share capital increase for Euro 622 thousand (0.35% of share capital), with a new share issue subscribed by Energie Offida S.r.l. through the contribution in kind of the company's business unit relating to the natural gas network and distribution facilities located in the territory of the Municipality of Offida.

Based on this operation, the Group acquired ownership and management of 16 km of network and about 540 PDR (*punti di riconsegna* - redelivery points) in the Municipality of Offida.

3.9 SHAREHOLDERS' MEETING APPROVAL FOR THE ESTRA LISTING PROCESS

During its session held on 28 August 2017, the Shareholders' Meeting approved the start-up of the process for the partial privatisation of Estra based on the listing of shares on the regulated market managed and organised by Borsa Italiana S.p.A., with the placement of shares with the public and/or institutional/professional investors. The Shareholders' Meeting provided Directors with a broad mandate in this regard, with the objective of completing the process during the spring of 2018.

4. BUSINESS SCENARIO

4.1 MACROECONOMIC FRAMEWORK 2017

Growth in the global economy during 2017 was stable, and according to forecasts issued by the OECD in November, global GDP for 2017 is estimated to increase by 3.6%. Estimates by the Bank of Italy show that international trade has also grown by 5.4%. The percentage of countries recording above average growth in their economic activities has also risen as from the second half of 2016. The risks for the world's economy seem to be linked to trends in financial markets: their current variability is associated with the intensification in geopolitical tensions, especially between the United States and North Korea, and the uncertainty on economic policies that impact negatively on household and business confidence. There are also concerns regarding relations between the United Kingdom and the European Union post-Brexit, despite an agreement having being reached on the first phase of the exit negotiations.[1]

The greatest contributor to the acceleration in global GDP over the last two-year period has come from the leading advanced economies. Their production activities have continued to expand, while inflation has remained contained. Thanks to the increase in investments and domestic consumption, growth has been recorded at sustained levels in the United States (GDP over 3% in the second and third quarters of 2017), despite the environmental and financial impact of the recent hurricanes. Recent tax reforms (Tax Cuts and Jobs Act), which have introduced cuts in the rates for households and businesses, have resulted in increases in salaries and improved financial conditions, with an increase in wealth that could be an important stimulus for global growth as well. In the United Kingdom, the growth in GDP was more moderate (+1.5% provisional) due to the slowdown in private consumption, which felt the effect of increased inflation on families (+3%) and the contraction in the growth of real salaries. In Japan, economic expansion was stable (GDP above 2.5% in the second and third quarters of 2017) with the most recent economic data showing an acceleration in the fourth quarter of the year.[2]

With regard to emerging countries, growth rates in GDP remained high in China (+6.8% provisional) and India (+6.7% provisional). Thanks to consumption holding and the continuing stability in the property market, growth in China remained stable towards the end of the year, after exceeding forecasts in the previous quarters. GDP accelerated in India over the summer, similarly to Brazil, where it came back into positive territory (+0.7% provisional) after the collapse in 2016 (-3.6%). GDP in Russia also came back to positive levels (+1.9% provisional) after the slight drop in 2016 (-0.2%). Inflation in the main emerging economies therefore remained moderate.

In the Eurozone, growth in GDP continued at a sustained level (+2.4% provisional), driven especially by net foreign demand, and to a lesser extent by consumption. Industrial production increased by 1.1% in the third

[1] Economic Bulletin 1/2018 - Bank of Italy
[2] Economic Bulletin, number 8 / 2017 - ECB

quarter of 2017. Manufacturing companies' confidence remained high, reflecting the continuation of the expansionary phase, albeit at a more constrained pace. Pricing trends remained contained, also due to the rise in salaries, which was still moderate in many economies in the area.[3]

In an international expansionary scenario, growth in the Italian economy consolidated, underpinned by the recovery in the process of capital accumulation. Even though at levels below the Eurozone average, Italian GDP in 2017 rose by +1.66%[4], with an increase of 0.5 percentage points against the increase in 2016, which came in at +1.11%. Growth in GDP was driven by the expansion in domestic demand and foreign trade. The value-added index rose in the industrial sector, based on the expansion in the manufacturing sector and recovery in construction. The contribution to GDP by the services' sector remained stable: it came down in the financial and IT sectors, whereas this rose in the trade and property segments.
Expenditure by Italian families rose during the summer months (+0.3% in consumption compared to the previous quarter), whereas the propensity for saving[5] stabilised at 8%. The more recent economic data confirms that consumption should continue to increase into the last quarter of 2017. Domestic consumption has benefited from the improvement in the labour market. During the third quarter of 2017, employment figures continued to increase (+0.4%), driven by the portion of employees with a fixed-term contract. According to the latest economic figures, employment has also risen slightly towards the end of 2017.
Manufacturing has seen strong expansion during the summer of 2017 (+5.4% in the III quarter), which continued into the autumn, albeit at a lower rate. Following its stagnation during the II quarter, exports recorded a significant recovery during the summer (+1.6% in volume compared to the previous period), driven especially by the acceleration in the sale of goods (+1.8%). The latter was particularly significant in countries in the European Union (EU) not falling under the Eurozone and non-EU countries. In terms of sector, the most significant contribution came from the mechanical and metal products' segments. According to the Bank of Italy, exports also grew in October and November, to achieve levels over the two-month period that there higher than the average for the third quarter.
Business surveys shown that confidence has remained high over all the main sectors. In particular, towards the end of 2017, confidence indicators for companies continued to improve, to reach the highest levels since 2007, and confirming the return to the levels prior to the double-dip recession.[6]

Monetary Policy

In 2017, the growth in the American economy led the Federal Reserve (FED) to implement a restrictive monetary policy. The FED has in fact introduced three interest rate hikes over the year, within a range between 1.25% and 1.5%. By increasing the cost of money, the American Central Bank lowered the supply of money in circulation, with the objective of containing inflation growth to within 2%, despite the strengthening in the labour market and rapid uptake in economic activity.

With regard to monetary policy in the Eurozone, the Managing Council of the European Central Bank (ECB) kept official interest rates unchanged on principal refinancing transactions, marginal refinancing transactions and on deposits (at 0%, 0.25% and at -0.40% respectively). In point of fact, due to somewhat modest inflationary pressures, a more expansionary approach was deemed necessary so as to support the sustained return of inflation to levels below, but close to 2%. The ECB also confirmed their stability forecast similar to current levels over an extended period, and well beyond the end of net investments in the scope of the broad programme to acquire financial assets (Expanded Asset Purchase Programme, APP). In terms of this programme, the ECB has specifically purchased public sector securities, covered bonds, securitised assets and corporate sector securities for an average programmed amount of Euro 60 billion a month up to December 2017.

Energy market performance

During 2017, oil prices (Brent Dated) fluctuated between $ 50 and $ 60 /barrel, except for the peaks recorded in the last two months of the year, where they exceeded $ 64/barrel. The annual average in 2017 was $ 54.2/barrel, $ 11 higher compared to 2016, when it came in at $ 43.55/barrel (+25%). The average for 2017 was also higher than the levels reached in 2015 ($ 52.44/barrel).

[3] Eurozone economic outlook 1/2018 - Istat
[4]Preliminary GDP estimate - Istat
[5] I.e. the "portion of gross savings by families in relation to their gross disposable income" (Istat – Annual Report 2016)
[6] Economic Bulletin 1 / 2018 - Bank of Italy

Underpinning this recovery is most certainly the "Opec Plus" agreement signed at the end of last year by 24 countries (of which 10 were non-Opec), for a total cut of 1.8 million barrels a day in production. After the uncertainty during the first half of the year, when markets were still doubtful as to whether the agreement on cuts would be respected, during the second half of the year, an almost constant increase was seen in listings, which was also thanks to the initial extension to the agreement until March 2018.

Oil is Italy's second source of energy, with a weighting of just over 35% of total consumption, down by 1.1% on 2016. Italian energy consumption in 2017 was at 161.8 MTOE (+0.6% on an annual basis), with these figures in line with the last three-year period. It should be noted that there was consistent growth in gas (+6.6%), with a weighting of 38.3% over total consumption, consolidating its position as the primary source of energy in Italy. Fossil sources (oil, gas and coal) combined covered little more than 80% of total energy demand, compared to 85% IN 2010.

Trends in the pricing of the different energy sources resulted in a 24% increase in the energy bill for 2017, in other words, the cost that the country incurs to procure energy from abroad. Specifically, the energy bill went from Euro 27.7 to 34.4 billion (6.7 billion up on 2016), with a weighting of around 2% on GDP.[7]

As far as the electricity market is concerned, the price to purchase electricity (PUN) in 2017 rose to € 53.95/MWh, once again increasing compared to the minimum historic low of € 42.78/MWh reached in 2016 (+26%) and coming back in line with the figures over the two-year period 2014-2015. The increase in the PUN reflects the context characterised by the upswing in the main European energy listings and the recovery in volumes traded on the market, which at 210.9 TWh, recorded their highest level since 2010.

Finally, with reference to the listings for natural gas, the prices on the national Virtual Exchange Point (PSV) inverted the downward trend of the last few years, going up to € 19.96/MWh (+26% from the minimum level in 2016). In a European context, where the listing for the main hubs followed an upward trend, the Italian was still the highest, thus reducing the differential with the price to the TTF to € 2.63/MWh compared to 2016.[8]

[7] Preliminary Oil Data 2017
[8] GME Newsletter January 2018

Overview of the reference Italian markets

Natural Gas Market

Natural Gas figures[9]			
NATURAL GAS (Millions m³)	**Year 2017**	**Year 2016**	**% Change**
Imports	69,222	65,029	+6.45
Domestic production	5,239	5,567	-5.89
Delivery from storage	11,234	10,988	+2.24
Total issued	**85,695**	**81,584**	**+5.04**
Services and domestic use	32,682	31,434	+3.97
Industrial use	14,313	13,357	+7.16
Thermoelectric use	25,410	23,336	+8.89
Exports, third party networks and system consumption*	2,281	2,269	+0.53
Total demand	**74,686**	**70,396**	**+6.09**
Injections into storage	11,009	11,188	-1.60

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

In 2017, the consumption of natural gas recorded a new increase (+6%), exceeding 74.6 billion cubic metres. This confirms the reversal in the trend that began in 2015.

Underlying the recovery especially in consumption in the thermoelectric sector, which was helped by the increase in electricity demand and the drop in hydroelectric production, to reach 25.4 billion cubic metres, achieving the highest levels since 2012.

The industrial sector has also recorded its highest levels in recent years, with consumption at 14.3 billion cubic metres in 2017. Growth on an annual basis was at 7%, confirming the signs of recovery from the production crisis that had already been seen in 2016.

Less significant was the increase in consumption in the residential sector (+3.97%), where the month of January 2017 was much colder than the average.

From the supply perspective, national production came down to 5.2 billion cubic metres (-5.89% compared to 2016). This trend was also due to the decision not to exploit the resources that were still available in certain areas.

The rise in consumption during 2017 was met by imports of natural gas for 69.2 billion cubic metres (up by 6.45% on an annual basis). The main source for the importing of natural gas came from Russia to Tarvisio (Udine) (30 billion cubic metres, or 43% of the total of imported gas), followed by imports of Algerian gas to Mazara del Vallo (Trapani) (18.9 billion cubic metres, or 27% of total gas imported).

Supplies from storage systems also increased in 2017, exceeding 11.2 billion cubic metres (+2.2% compared to 2016).

In gas markets managed by GME, a total of 4.34 billion cubic metres (4.5 billion cubic metres in 2016) were traded. 2017 was the first year of the new regulatory framework, which redefined the balancing system and redesigned the natural gas market (MGAS). Added to this was the market for trading in locational products (MPL) and the market for the regulation of the quantities of gas handled from storage (MGS), which in the past had been organised in the scope of the Gas Balancing Platform (PB-GAS). In a context of recovery in consumption and within the new balancing system, and excluding the PB-GAS from the analysis, we note growth in the

[9] GME Report year 2017, GME Report year 2016

liquidity of markets managed by the GME. Volumes recorded on both the spot and forward markets, have shown significant increases, reaching historic highs.

The gas distribution market is still stalling with regard to the preparation of the ATEM tenders. There have only been a few tenders issued in relation to those expected by the Ministry of Economic Development schedule. By the end of 2017, the situation was as follows:
• 2 revised tenders from ARERA (formerly AEEGSI) pending publication: Rome 1, Forlì-Cesena;
• 4 ATEMs with the tender published and open procedure: Milan 1 (only tender completed with the submission of offers), Turin 2 (offer submitted by Italgas), Belluno (offer presented by Italgas) and Udine 2;
• 9 tenders published with a restricted procedure: Lodi 1, Monza and Brianza 1, Perugia 2, Varese 2, Verona 2, Lucca, Varese 3, Udine 1, Udine 3;
• 7 tenders withdrawn or suspended: Alessandria 2, Biella, Massa Carrara, Monza and Brianza 2, Turin 3, Cremona 2 and 3 and Venice 1
The sector was affected by the revision of the WACC investment tariff remuneration, by ARERA (formerly AEEGSI) for the regulatory period 2016 - 2018. The gas distribution service WACC dropped to 6.1% (against 6.9% of the previous regulatory period) and the gas measurements is at 6.6% (compared to 7.2% in the previous period).

Electricity and renewable sources market

The demand for electricity in Italy in 2017 was 320.4 TWh, recording an increase of 6.2 TWh (+2%) compared to the previous year (preliminary data Terna).

Electricity figures[10]			
Electricity (TWh)	**Year 2017**	**Tear 2016**	**% Change**
Net production:	285.12	279.70	+1.9
Thermoelectric	199.50	190.77	+4.6
Hydroelectric	37.53	43.79	-14.3
Photovoltaic	24.81	21.76	+14.0
Wind	17.49	17.52	-0.2
Geothermal	5.79	5.87	-1.4
Net import/export balance	37.76	37.03	+2.0
Pumping consumption	-2.44	-2.47	-1.1
Total demand	**320.44**	**314.26**	**+2.0**

Similarly to 2016, net production: covered 89% of the demand for electricity.
In absolute terms, production was at 285.12 TWh, up by 5.42 TWh (+1.9%) on an annual basis.

An analysis of the individual production components shows a drop in hydroelectric (-14.3%) due to the lower rainfall. Thermoelectric on the other hand continued to grow (+4.6%) due to the new blocks to a section of the French nuclear stations that reduced imports from that country.
Production from wind plants remained stable, whereas there was a significant increase in the photovoltaic segment (+14%).

The net import/export balance was characterised by an increase of 0.73 TWh (+2%).

The rise in electricity demand in 2017 coincided in terms of electricity pricing, with the increase in the Single National Unit Price (PUN). The average PUN in 2017 came in at € 53.95/MWh, up by € 11.17/MWh compared to 2016 (+26.1%). This upward trend characterised all months in the year, concentrated in the first two months,

[10] Terna - Monthly Report on the Electricity System (December 2017)

which were characterised by extended tensions in the French market, and in August corresponding to the exceptional demand levels associated with the higher temperatures.[11]

Energy efficiency market

The twenty first Conference of the Parties held in Paris (COP21) in 2015, was an event that marked a turnaround on the issue of the fight against climate change. On this occasion, the 197 countries involved agreed on the need for a global action plan that was legally binding to limit the increase in the global average temperature to below 2°C. This international commitment that was then confirmed by the Marrakesh Declaration (COP22) in 2016, which outlined the guidelines for monitoring actions directed at containing the emission of greenhouse gases (Nationally Determined Contributions) and continued in 2017 with the Conference of the Parties in Bonn (COP23). This session confirmed the intention of bringing forward the drafting of an action plan to implement the Paris Agreement, to be done before the next Conference that will be held in Poland in December 2018.[12]
In this regard, Italy has adopted the National Energy Strategy (SEN) 2017, with the aim of rendering its system more sustainable on an environmental level, and stronger on an economic level. The new aspects included in the SEN include stopping the production of electricity from coal by the year 2025. Combined with the increase in renewables, abandoning coal should bring down emissions to 39% in 2030, and to 63% in 2050, compared to the levels in 1990. Renewable sources must meet 28% of total consumption by 2030, compared to the 17.5% in 2015. From an energy efficiency perspective, final consumption by 2030 should come down from 118 to 108 MTOE.[13]
In recent years, Italy has committed itself to reaching the energy saving targets set for 2020 by European Directive 2012/27/EU. By 2016, 41% of these targets had been achieved. Among the sectors that contributed are the residential (reaching 84.2% of the 2020 target) and industry (reaching 38.3% of the 2020 savings target).

Annual energy savings achieved by sector for the period 2011-2016 and expected at 2020 *(final energy, MTOE)*[14]

Sector	Legislative Decree 192/05	White certificates	Heat account	Tax deductions	Ecoincentives and EU regulations	Other measures	Energy savings		Target achieved (%)
							Achieved in 2016	Expected at 2020	
Residential	0.91	0.59	-	1.56	-	0.02	3.09	3.67	84.2%
Tertiary	0.05	0.13	0.003	0.02	-	-	0.19	1.23	15.4%
Industry	0.09	1.84	-	0.03	-	-	1.95	5.10	38.3%
Transport	-	-	-	-	1.13	0.04	1.18	5.50	21.4%
Total final energy	**1.05**	**2.56**	**0.003**	**1.60**	**1.13**	**0.07**	**6.41**	**15.50**	**41.4%**

A number of regulatory and management changes characterised 2017 relating to the Energy Efficiency Market (TEE) market. In particular, the Ministerial Decree came into effect, which introduced measures to strengthen the overall efficiency of this market, by setting the criteria, conditions and implementation methods for introducing energy efficiency projects in final uses, in order to access the White Certificates.[15]
During 2017, the GSE recognised 5.8 million TEEs. The trend in certificates recognised overall in 2017 increased by around 5.3% compared to 2016, when 5.5 million were recognised. This was a record year for TEEs in terms of prices and volumes. The average price was at € 267/TOE, an increase of 81% on the previous year, thus consolidating the upward trend that started up slowly in 2007 and has picked up over the last two years. Volumes traded stood at 6.22 million TOE, up by 12% on the previous year, and consolidated the positive trend in the market.

[11] GME Report year 2017
[12] Annual Report White Certificates GSE 2017
[13] Ministry of Economic Development – National Energy Strategy
[14] Enea Annual Energy Efficiency Report 2017
[15] Ministerial Decree 11 January 2017 came into force on 04 April 2017

Energy efficiency certificates - cumulative data[16]				
Year	Price (€/TOE)			Volumes traded
	Weighted average	Minimum	Maximum	(TOE)
2017	267.02	145.00	358.00	6,220,043

With regard to the electrical mobility sector, Italy is one of the countries with the highest growth prospects. Various scenarios were presented during 2017, showing that electric vehicles could reach up to 27% of the national motor vehicle market by 2030. These prospects are quite challenging if one considers that the current market share for electric vehicles stand at under 0.1%. The attainment of these growth levels will be influenced by changes to the regulatory framework (for example, the new European regulations like the Clean Mobility Package, which aims to reduce emissions from cars in 2030 to 30% of the levels in 2021), by mass media communications, the speed with which the population will be replacing their cars and by infrastructure investments. In respect of the latter, many utilities have launched investment programmes aimed at increasing the installation of charging columns; with this being a necessary condition for the effective development of electric cars, and the introduction of a series of applications that will allow for these vehicles to charge up quickly. [17]

Telecommunications market

Driven by the new technologies and an increasingly digital economy, the value of the Italian Information Technology market, which includes Telecommunication services, has shown an overall increase of 3.1% in 2017. The value of this market went from Euro 22 to 22.7 billion in one year. There are also positive indications for 2018 with a growth estimate of 1.9%.[18]

In order to continue developing the national economy and digital culture, thus reducing the gap that still distinguishes Italy from the major European countries, the Government issued two tenders in 2017 for the construction and management of ultra-wide bandwidth infrastructure in the White Areas (so-called market failure areas). Enel Open Fibre was awarded both tenders.[19]
In respect of the first tender, Open Fiber was awarded all five lots involving six regions (Abruzzo, Molise, Emilia Romagna, Lombardy, Tuscany, Veneto) for a total of approximately Euro 1.4 billion. The second tender referred to six lots in eleven regions (Piedmont, Valle d'Aosta, Liguria, Friuli Venezia Giulia, Autonomous Province of Trento, Marche, Umbria, Lazio, Campania, Basilicata, Sicily) and was awarded to the Enel Group for an amount of around Euro 1.25 billion. The work by Open Fiber should make it possible to bring ultra-wide bandwidth to 3,710 Italian Municipalities, involving 3.150 million property units.[20]
At the end of 2017, the Ministry of Economic Development began a public consultation process related to the third Infratel tender for a fibre network in the white areas of Calabria, Puglia and Sardinia. The tender should be published in early 2018.

In 2017, the Ministry of Economic Development published the tender for the 5G trials in the 5 cities: Milan, Prato, L'Aquila, Bari and Matera. Vodafone Italia will be operating in Milan, Wind Tre and Open Fiber in Prato and L'Aquila (with Estra participating in Prato), Telecom Italia, Fastweb and Huawei Technologies Italy in Bari and Matera.[21] The trial will extend until 2020 and represents a new step towards bringing Italy closer to having the technology for fifth generation mobile networks. 5G is not only an evolution of 4G, but is also a platform that opens up new development opportunities. This technology is quite distinct to the past both in terms of speed and latency time; it has enormous potential regarding services that can be developed and provides an enabler for growth for the national production system.

Finally, when analysing the market for the final sales of telecommunications, 2017 saw an increasing propensity in customers with fixed broadband telephony migrating towards superior speed classes and a significant increase in the use of mobile sims for accessing the internet.
According to data published by Agcom for the third quarter of 2017, broadband access from fixed networks touched on 16.4 million units, with an increase of 950 thousand units on an annual basis. ADSL lines came down by 960 thousand units, amounting to 11.47 million lines.

---

[16] Annual Report White Certificates GSE 2017
[17] Monthly Focus January 2018 Terna
[18] Assintel Report 2017
[19] Report on the Telecommunication network in Italy 2017
[20] https://www.corrierecomunicazioni.it/telco/banda-ultralarga/banda-ultralarga-a-open-fiber-la-seconda-gara-infratel/
[21] MISE: Notice of 2 August 2017 - 5G Trial: Classification of best project proposals and deferral for negotiated procedure.

In September 2017, more than 64% of broadband lines were marketed with a speed equal to or higher than 10 Mbit/s. On an annual basis, lines with a speed equal to or higher than 30 Mbit/s grew by just over 1.8 million units, to reach 3.8 million accesses. Accesses with a speed between 10 and 30 Mbit/went up by 850 thousand units, to reach 6.7 million accesses. Accesses with a speed lower than 10 Mbps, came down by almost 1.7 million.
On the mobile telephony side, total lines recorded an increase of 1.5 million units on an annual basis. Business use (11.6% of lines equalling 9.7 million sims) showed a slight increase (+60 thousand units), whereas residential use (88.4% of lines equalling 74.8 million sims) came down by almost 2.5 million lines.
Noting the trend in data traffic on an annual basis, the number of sims with Internet access rose by 4.6% to reach 52.6 million units, average monthly consumption (2.78 Giga/month) showed an increase of over 57% and total data traffic is up by around 65%.[22]

5. ALTERNATIVE PERFORMANCE INDICATORS

The ESTRA Group uses alternative performance measures (APM) to better transmit information on the profitability of the business it operates, as well as on its asset and financial position.

To correctly interpret these APM, the following is noted:

(i) these measures are formulated on the basis of the Group's historic data and are not indicative of the Group's future performance;
(ii) the APM should not be considered as a substitute for the indicators set by reference accounting standards (IFRS);
(iii) the definition of the indicators used by the Group may not standardised to those adopted by other companies and may therefore not be comparable, given that these are not based on the main reference accounting standards.

In accordance with the guidelines published on October 5, 2015 by the European securities and markets (Esma/2015/1415), please find explained below the content and the criterion of determining the APMs used in these financial statements.

Alternative performance measures for income statement

- Income components are classified under **Non-Recurring Items**, if they are significant, when they (i) arise from events or transactions whose occurrence is not recurring, or from transactions or events that are not frequently repeated in the normal course of business, pursuant to CONSOB Resolution number 15519 of 27 July 2006 or (ii) arise from events or transactions that are not representative of the normal course of business, as in the case of charges for an appraisal or the disposal of an asset and extraordinary financial expenses subsequent to early redemption and/or reimbursement, even if these occurred during previous financial periods or will probably occur in future periods.
- **Total Revenues** is calculated by adding the "Revenues from sales and services" and "Other operating income" appearing in the Group's consolidated statement of income.
- **Total Adjusted Revenues** corresponds to Total Revenues referred to above, adjusted to exclude non-recurring revenues as detailed above.
- **External costs,** calculated by adding the costs for "Purchases of goods, raw materials and ancillary materials", the "Costs for services", the "Costs for leased third-party assets" and "Other operating expenses" appearing in the Group's consolidated income statement.
- **Adjusted External costs** corresponds to External costs referred to above, adjusted to exclude the non-recurring items detailed above.
- The **gross operating margin or EBITDA** is an operating performance indicator, and is calculated by adding to the net income, appearing in Estra's consolidated financial statements, the "net losses from discontinued operations, the "taxes on income for the year", the result of the "valuation of shareholdings according to the equity method", the "gains and losses on foreign exchange", the "financial expenses", "financial income" and the "amortisation, depreciation, provisions and impairment", appearing in the Group's consolidated financial statements.
- **Adjusted EBITDA** corresponds to the EBITDA referred to above, adjusted to exclude significant non-recurring revenues and costs as detailed above. This parameter is not identified as an accounting measurement in the scope of the EU-IFRS, and the calculation criteria applied by the Group may therefore not be standardised with those adopted by other Groups. This indicator is used as a financial

[22] AGCOM Communications Observatory No.4/2017

target in internal and external presentations (to analysts and investors) and is a useful measure for assessing the Group's operating performance (as a whole and at a business unit level), also by comparing the Operational profitability of the reference period with that of previous periods. This allows for a trend analysis and a comparison on the efficiencies realised during the periods.

- **Adjusted EBIT** corresponds with the operating result sourced from the Group's consolidated financial statements, adjusted to exclude non-recurring items as detailed above. This parameter is not identified as an accounting measurement in the scope of the EU-IFRS, and the calculation criteria applied by the Group may therefore not be standardised with those adopted by other Groups.
- **Adjusted net income** corresponds to the net income sourced from the Group's consolidated financial statements, adjusted to exclude non-recurring items as detailed above. This parameter is not identified as an accounting measurement in the scope of the EU-IFRS, and the calculation criteria applied by the Group may therefore not be standardised with those adopted by other Groups.

Alternative performance measures for financial position

- **Fixed assets** are determined as the sum of: tangible fixed assets, intangible assets and goodwill, equity investments and other non-current financial assets.
- **Other non-current assets and liabilities** include the sum of "other non-current assets/liabilities", "deferred tax assets/liabilities", "employee leaving indemnity" and the "provisions for risks and charges".
- **Net working capital** is the sum of: inventories, trade receivables and payables.
- **Other current assets and liabilities** include the sum of "tax receivables/payables" and "other current assets/liabilities".
- **Net invested capital** is determined by the algebraic sum of "immobilised capital", "non-current assets/liabilities", "net current working capital" of "other current assets/liabilities" and assets intended for sale". This indicator represents a financial target in the business plan and in the external (analysts and investors) presentations and represents a useful measure for the assessment of all current and non-current assets and liabilities belonging to the Group, as detailed above.
- The **Net Financial Indebtedness** represents an indicator of the financial structure. This indicator is thus determined as the sum of the items: cash and cash equivalents, medium/long-term financial liabilities within 12 months, medium/long-term financial liabilities over 12 months, short-term financial liabilities, other current financial assets/liabilities (such as active and passive financial instruments). This indicator represents a financial target in the business plan and in the external (analysts and investors) presentations and is a useful measure for assessing the Group's financial debt level, also by comparing it with previous periods. This allows for a trend analysis and a comparison on the efficiencies realised during the periods.
- **Net Capital** is obtained from the sum of the net financial Indebtedness and equity. This indicator represents a financial target in the internal business (business plan) and external (analysts and investors) presentations, represents the breakdown of sources of financing between equity and third parties, and is an indicator of the financial autonomy and soundness of Group.

Financial position Ratios

- The solidity ratio is defined as the ratio between total non-current assets and total assets.
- The elasticity ratio is defined as the ratio between total current assets and total assets.
- The liquidity ratio is defined as the ratio between total non-current assets and total current assets.
- The Net financial Indebtedness/Equity ratio (Leverage) is the ratio between the net financial Indebtedness and the consolidated shareholders' equity.
- The Net financial Indebtedness/Adjusted EBITDA ratio is the ratio between the net financial Indebtedness and Adjusted EBITDA. The Net Financial Indebtedness /Ebitda ratio, expressed as a multiple of EBITDA, is used as a financial target for internal and external (analysts and investors) presentations and represents a measure of the operational capability of remunerating net financial indebtedness.
- The short-term ratio is the ratio between current financial debt and net financial indebtedness.
- The long-term ratio is the ratio between non-current financial debt and net financial indebtedness.

Rotation ratios

- Average collection days are defined as the ratio between Trade receivables and Revenues from sales and services, multiplied by the days in the reference period.

- Average payment days are defined as the ratio between the sum of Trade payables and the sum of Purchases for raw, ancillary materials and goods, Costs for services, Costs for the use of third party assets and Other operating expenses, multiplied by the days in the reference period.

Performance ratios

- Margin EBITDA is calculated as the ratio between Adjusted EBITDA and Total Adjusted Revenues.
- ROE, i.e. the return on equity, is the ratio between net income and equity, expressed as a percentage. This indicator represents a financial target in the internal business (business plan) and external (analysts and investors) presentations and intends to measure the profitability of risk investors.
- ROI, i.e. return on net invested capital, is the ratio between operating result and net invested capital, expressed as a percentage. This indicator is used as a financial target in the internal business (business plan) and in the external (analysts and investors) presentations and intends to measure the ability to generate wealth through operational management and thus to repay both equity and third party equity.

6. PERFORMANCE – BUSINESS TRENDS

The main income data for the periods ended December 31, 2017, 2016 and 2015 are set out in the table below:

Income Statement	For the years ended as at December 31						Change			
(values in thousands of Euro)	2017		2016		2015		2017 vs 2016		2016 vs 2015	
	Value	Percentage	Value	Percentage	Value	Percentage	Absolute	%	Absolute	%
Total revenues	**1,016,504**	**100.00%**	**1,044,394**	**100.00%**	**921,826**	**100.00%**	**(27,890)**	**-2.67%**	**122,568**	**13.30%**
External consumption	(895,000)	-88.05%	(925,435)	-88.61%	(780,461)	-84.66%	30,434	-3.29%	(144,974)	18.58%
Personnel costs	(34,218)	-3.37%	(32,319)	-3.09%	(31,229)	-3.39%	(1,899)	5.88%	(1,090)	3.49%
Financial income (expenses) from commodity risk management	150	0.01%	(538)	-0.05%	35	0.00%	688	> 100%	(573)	> 100%
Portion of income (expenses) for valuation of non-financial long-term investments using the equity method	225	0.02%	470	0.05%	1,073	0.12%	(245)	-52.22%	(603)	-56.20%
Gross operating margin (Ebitda)	**87,661**	**8.62%**	**86,572**	**8.29%**	**111,244**	**12.07%**	**1,088**	**1.26%**	**(24,672)**	**-22.18%**
Amortisation, depreciation and impairment	(33,185)	-3.26%	(32,788)	-3.14%	(28,258)	-3.07%	(378)	1.15%	(4,550)	16.10%
Provisions	(9,779)	-0.96%	(16,474)	-1.58%	(13,686)	-1.48%	6,676	-40.57%	(2,767)	20.22%
Operating result	**44,697**	**4.40%**	**37,310**	**3.57%**	**69,300**	**7.52%**	**7,387**	**19.80%**	**(31,990)**	**-46.16%**
Financial income and charges	(13,933)	-1.37%	(9,369)	-0.90%	(7,897)	-0.86%	(4,564)	48.72%	(1,472)	18.64%
Income before taxes	**30,764**	**3.03%**	**27,941**	**2.68%**	**61,403**	**6.66%**	**2,823**	**10.10%**	**(33,462)**	**-54.50%**
Taxes on income for the year	(14,321)	-1.46%	(10,892)	-1.04%	(24,704)	-2.68%	(3,428)	31.47%	13,812	-55.91%
Net income from continuing operations	**16,443**	**1.68%**	**17,049**	**1.63%**	**36,699**	**3.98%**	**(606)**	**-3.55%**	**(19,650)**	**-53.54%**
Net losses from discontinued operations	(377)	-0.04%	(2,000)	-0.19%	(1,057)	-0.11%	1,623	-81.13%	(943)	89.21%
Net income	**16,066**	**1.58%**	**15,049**	**1.44%**	**35,642**	**3.87%**	**1,017**	**6.75%**	**(20,593)**	**-57.78%**
Income attributable to minority interests	5,046	0.50%	4,033	0.39%	1,573	0.17%	1,013	25.11%	2,460	> 100%
Net Income for the Group	11,020	1.08%	11,016	1.05%	34,069	3.70%	4	0.04%	(23,053)	-67.66%

The table below shows Adjusted Consolidated Revenues, Adjusted EBITDA, EBITDA and the Operating Result (EBIT), for the years ended December 31, 2017, 2016 and 2015.

Adjusted Income Statement	**For the years ended as at December 31**						**Change**			
(values in thousands of Euro)	**2017**		**2016**		**2015**		**2017 vs 2016**		**2016 vs 2015**	
	Adjusted values	**Percentage**	**Adjusted values**	**Percentage**	**Adjusted values**	**Percentage**	**Absolute**	**%**	**Absolute**	**%**
Total adjusted revenues	**1,016,504**	**100.0%**	**1,040,421**	**100.0%**	**866,915**	**100.0%**	**(23,917)**	**-2.3%**	**173,506**	**20.0%**
Adjusted external costs	(896,001)	-88.1%	(925,435)	-88.9%	(777,091)	-89.6%	29,434	-3.2%	(148,344)	19.1%
Personnel costs	(34,218)	-3.4%	(32,319)	-3.1%	(31,229)	-3.6%	(1,899)	5.9%	(1,090)	3.5%
Financial income (expenses) from commodity risk management	150	0.0%	(538)	-0.1%	35	0.0%	688	>-100%	(573)	->-100%
Portion of income (expenses) for valuation of non-financial long-term investments using the equity method	225	0.0%	470	0.0%	1,073	0.1%	(245)	-52.1%	(603)	-56.2%
Adjusted EBITDA	**86,661**	**8.5%**	**82,599**	**7.9%**	**59,703**	**6.9%**	**4,061**	**4.9%**	**22,896**	**38.3%**
Adjusted amortisation, depreciation and impairment	(31,462)	-3.1%	(30,225)	-2.9%	(18,924)	-2.2%	(1,237)	4.1%	(11,301)	59.7%
Adjusted provisions	(9,778)	-1.0%	(14,203)	-1.4%	(10,772)	-1.2%	4,425	-31.2%	(3,431)	31.9%
Adjusted EBIT	**45,420**	**4.5%**	**38,170**	**3.7%**	**30,007**	**3.5%**	**7,249**	**19.0%**	**8,164**	**27.2%**
Adjusted financial income and charges	(10,659)	-1.0%	(9,369)	-0.9%	(7,897)	-0.9%	(1,290)	13.8%	(1,472)	18.6%
Adjusted income before taxes	**34,761**	**3.4%**	**28,802**	**2.8%**	**22,110**	**2.6%**	**5,959**	**20.7%**	**6,692**	**30.3%**
Taxes on income for the year (net of tax effects for non-recurrent items)	(15,603)	-1.5%	(11,140)	-1.1%	(12,444)	-1.4%	(4,463)	40.1%	1,304	-10.5%
Adjusted net income from continuing operations	**19,158**	**1.9%**	**17,662**	**1.7%**	**9,666**	**1.1%**	**1,496**	**8.5%**	**7,996**	**82.7%**
Adjusted net results from discontinued operations	(377)	0.0%	-	0.0%	-	0.0%	(377)	100.0%	-	0.0%
Adjusted net income	**18,780**	**1.8%**	**17,336**	**1.7%**	**9,666**	**1.1%**	**1,119**	**6.3%**	**7,996**	**82.7%**

The Group's Consolidated Income Statement for the three-year period 2017, 2016 and 2015 was influenced by certain income components that (i) arise from events or transactions whose occurrence is not recurring, or from transactions or events that are not frequently repeated in the normal course of business, or (ii) arise from events or transactions that are not representative of the normal course of business, even if they occurred in previous periods, it is probable that they will occur in future periods, as described below.

The composition of the elements defined by the Company's management as non-recurrent, unusual or not representative of the normal course of business for the years ended December 31, 2017, 2016 and 2015 are illustrated below.

	For the years ended as at December 31,		
(values in thousands of Euro)	**2017**	**2016**	**2015**
Net gain from the sale of the gas distribution plant in the Prato Municipality	-	-	(54,911)
Income from APR adjustment mechanism	-	(3,973)	-
Total non-recurring revenues	**-**	**(3,973)**	**(54,911)**
Extraordinary provisions related to the sale of gas and gas distribution in the Prato Municipality	(1,000)	-	3,370
Total non-recurring items and revenue impacting on EBITDA	**(1,000)**	**(3,973)**	**(51,541)**
Write-down of tangible fixed assets following impairment test of the biomass cogeneration plant in the Municipality of Calenzano	-	2,582	-
Write-down of tangible fixed assets following impairment test of the tri-cogeneration plant in the Municipality of Sesto Fiorentino	1,723	-	-
Expenses and impairment related to the risk of non-recoverability of the ongoing investment in the construction of the Andali wind farm	-	-	12,248
Impairment provision for risks to cover the possible expense arising from the enforcement of the guarantee issued to the GSE in relation to the Andali wind farm	-	2,251	-
Total non-recurring items impacting on Operating Result (EBIT)	**723**	**860**	**(39,293)**
Extraordinary financial expenses from early leasing redemption	629	-	-
Extraordinary financial expenses from early extinguishing of derivatives	2,645	-	-
Total non-recurring items impacting on pre-tax income	**3,997**	**860**	**(39,293)**
Adjustment to the value of presumable realisation of net assets of subsidiaries Serenia S.r.l. and Ueneko S.p.z.oo.	-	2,000	1,057
Total non-recurring items related to the Discontinued operations	**-**	**2,000**	**1,057**
Total non-recurring items	**3,997**	**2,860**	**(38,236)**

We note the following elements during 2017 (impacting negatively overall on the Group's pre-tax income for Euro 3,997 thousand):

- Reversal of the portion exceeding the provision made during 2015 (originally for a total of Euro 3,370 thousand intended to cover possible expenses related to the sale of the gas distribution plant in the Municipality of Prato) for Euro 1,000 thousand against the partial revision of the risks associated with possible reductions in the sales price;
- Write-down of tangible assets following impairment test of the tri-cogeneration plant located in the Municipality of Sesto Fiorentino for Euro 1,723 thousand, recognised under the item amortisation, depreciation, provisions and impairment;
- Non-repetitive financial expenses related to the early redemption of certain leasing for Euro 629 thousand;
- Non-repetitive financial expenses related to the early extinguishing of certain derivative financial instruments for Euro 2,645 thousand.

We note the following elements during 2016 (impacting negatively overall on the Group's pre-tax income for Euro 2,860 thousand):

- Amount received as offsetting for the APR mechanism (promotion of the re-negotiation of long-term contracts, introduced with Resolution 196/2013/R/gas, provided by the CCSE), recognised under the item other revenues for Euro 3,973 thousand;
- Write-down of tangible assets as a result of impairment testing of the biomass cogeneration plant located in the Municipality of Calenzano, for Euro 2,582 thousand, recognised under the item amortisation, depreciation, provisions and impairment;
- Increase in the provision for risks to cover the possible expense arising from the enforcement of the guarantee issued to the "Gestore Servizi Energetici" (GSE) in relation to the Andali wind farm, recorded under the item amortisation, depreciation, provisions and impairment for Euro 2,251 thousand;
- Adjustment to the value of presumable realisation of net assets of subsidiaries Serenia S.r.l. and Useneko S.p.z.oo. through a write-down of Euro 2,000 thousand, recorded in the line Net losses from discontinued operations.

We note the following elements during 2015 (impacting positively overall on the Group's pre-tax income for Euro 38,236 thousand):

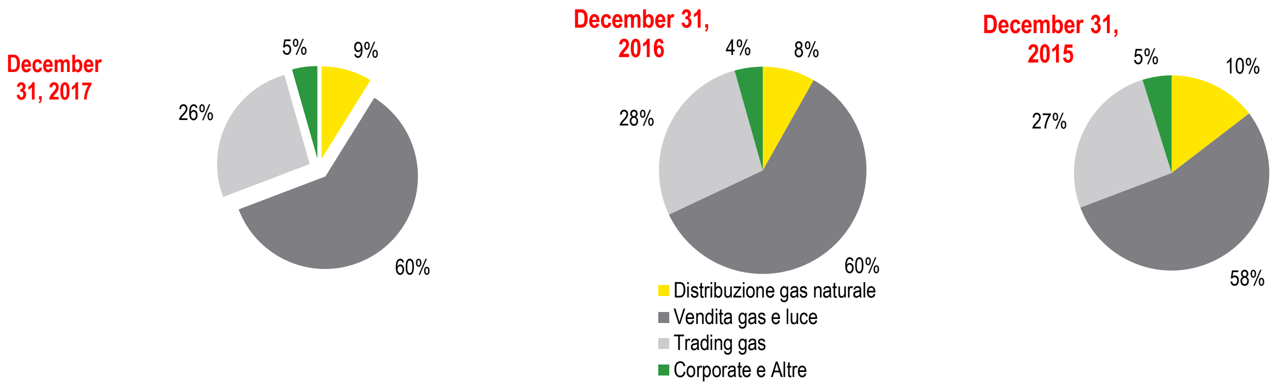
- Gain from the sale of the gas distribution plant in the Municipality of Prato, recorded in the item Other revenues for Euro 54,911 thousand, plus extraordinary provisions recognised under Other operating expenses of Euro 3,370 thousand;
- Impairment of intangible assets for Euro 9,333 thousand and provisions for risk funds of Euro 2,915 recognised under the item amortisation, depreciation, provisions and impairment, against the risk of non-recovery of the ongoing investment in the construction of the Andali wind farm;
- Adjustment to the value of presumable realisation of net assets of subsidiaries Serenia S.r.l. and Useneko S.p.z.oo. through a write-down of Euro 1,057 thousand, recorded in the line Net losses from discontinued operations.

The Group's business model is currently structured based on Strategic Business Units (SBU) that are related to gas and electricity sales, natural gas distribution, gas trading, and the SBU "Other" that includes telecommunications, energy services, renewables and corporate services provided by the Parent Company. Subdivision into SBUs reflects the reporting used by Management for analysis and the planning of managed businesses.

The table below illustrates total adjusted revenue, including revenues from sales and services and stated net of non-recurring items for each of the Estra Group's business areas for the years ended December 31, 2017, 2016 and 2015, specifying the relevance in percentage terms in relation to the Group's total consolidated revenue.

	For the year ended as at December 31,						Change			
Total adjusted revenues (values in thousands of Euro)	**2017**	**% over Total Adjusted Revenues**	**2016**	**% over Total Adjusted Revenues**	**2015**	**% over Total Adjusted Revenues**	**2017 vs 2016**	**%**	**2016 vs 2015**	**%**
Sales of natural gas and electricity	659,607	65%	664,743	64%	552,406	64%	(5,136)	-1%	112,337	20%
Natural gas distribution	96,841	10%	91,746	9%	92,234	11%	5,095	6%	(488)	-1%
Natural gas trading	287,863	28%	310,011	30%	261,716	30%	(22,148)	-7%	48,295	18%
Corporate and others	48,445	5%	48,611	5%	48,945	6%	(166)	0%	(334)	-1%
Adjustments and eliminations	(76,251)	-8%	(74,690)	7%	-88,387	-11%	(1,561)	2%	(13,697)	-15%
Total adjusted revenues	**1,016,504**	**100%**	**1,040,421**	**100%**	**866,915**	**100%**	**(23,917)**	**-2%**	**173,506**	**20%**

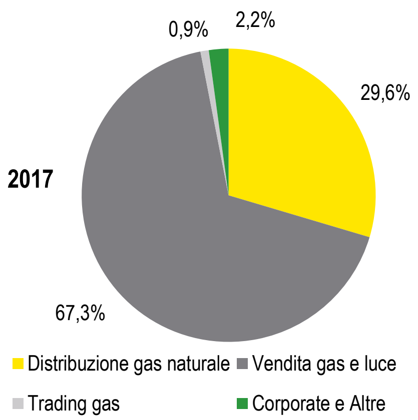
The following chart shows the breakdown of revenues for SBU, gross of eliminations for transactions between the various SBUs. For more information on the economic performance, reference is made to the chapter on analysis per business area.

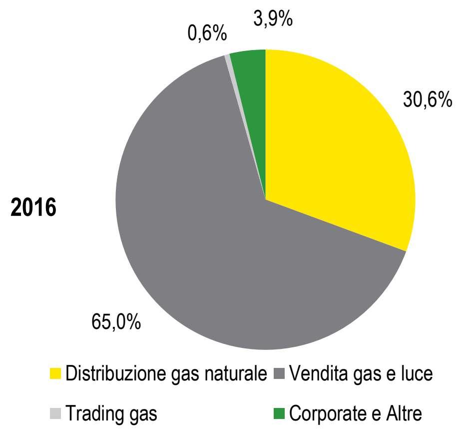


Distribuzione gas naturale	Natural gas distribution
Vendita gas e luce	Gas and electricity sales
Trading gas	Gas trading
Corporate e Altre	Corporate and Others

6.1 2017 PERFORMANCE COMPARED TO 2016

The drop in revenue is mainly attributable to the reduction in business in the Trading SBU. The revenues for other segments are in line with the figures from previous periods. Revenue from the gas and electricity sales segment remain at 60% as the impact on total revenues gross of eliminations. Revenue for the gas distribution SBU are at 9% (8% in 2016).
The gas and electricity sale SBU is characterised by an increase in revenue from the sale of gas supply, which was up on the previous period due to the higher volumes sold and extended customer base, as well as the drop in the sale of electricity due to the combined effect of the increase in revenue from the raw materials component and fixed portion and the reduction in revenue from transport and despatch components, which have a corresponding cost item.
Adjusted external costs are down by Euro 29.4 million, especially due to the drop in the Trading SBU business.
The impact of external costs on total adjusted revenues improved, going from 89% to 88%. The increase in labour costs that went from Euro 32.3 to 34.2 million is due to the corporate acquisitions in the gas and electricity sales SBU and the new appointments to develop the business.
Income from non-financial equity investments for Euro 225 thousand in 2017 relates to the operating result of the associated company, EDMA S.r.l.
Adjusted EBITDA stands at Euro 86.7 million (82.6 million in 2016) with an impact on revenue that went from 7.9% to 8.5%. The impact of adjusted EBITDA on revenue, net of the Trading SBU business, grew from 11.2% in 2016 to 11.8% in 2017. The increase is mainly due to the improvement in margins of gas and electricity sales arising from increased sales (gas segment) and the consolidation of the company Piceno Vendita Gas S.r.l.
The breakdown on the composition of Adjusted EBITDA is provided below, between the different SBUs for the year ended 31 December 2017, compared with the previous period:





Distribuzione gas naturale	Natural gas distribution
Vendita gas e luce	Gas and electricity sales
Trading gas	Gas trading
Corporate e Altre	Corporate and Other

Adjusted amortisation, depreciation and impairment amount to Euro 31.5 million, up compared to the previous year (30.2 million) due to the new investments. The drop in adjusted provisions went from Euro 14.2 to 9.8 million as a result of the reduction in provisions made to the bad debt provision. In 2016, most provisions referred to adjusting the bad debt provision for the new companies that had been acquired.

Adjusted EBIT went from Euro 38.2 million in 2016 to 45.44 million in 2017, moving upwards by 19%; this can mainly be attributed to the change in adjusted EBITDA for the gas and electricity sales SBU and the changes in the amortisation, depreciation and provisions items.
Adjusted financial income and charges has a negative balance of Euro 10.77 million, up from Euro 9.4 million in 2016 because of:

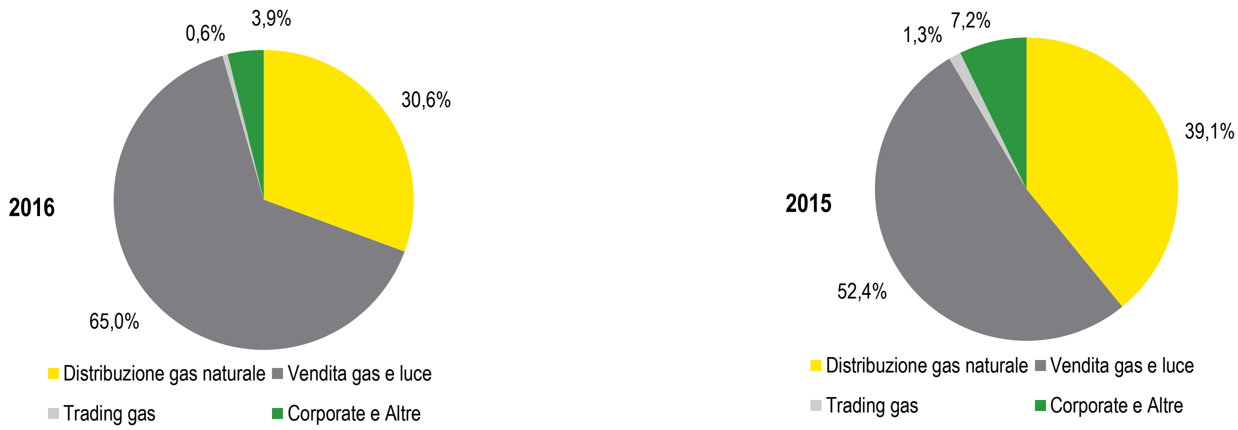
- the increase in financial income/expenses from Euro 9 to 10.99 million;
- the increase in the share of net result using the equity method for non-financial equity investments, income for Euro 280 thousand in 2017, expenses for Euro 348 thousand in 2016.

The adjusted income before taxes came to Euro 34.8 million, up by Euro 6 million compared to 2016.
The net losses from discontinued operations for Euro 377 thousand relates to the adjustment in the presumable realisation value for the subsidiary Useneko S.p.z.oo.
The adjusted net income for the year, at Euro 18.8 million, was up on the Euro 17.7 million for 2016.

6.2 2016 PERFORMANCE COMPARED TO 2015

The growth in adjusted revenue is mainly due to the increase in the volumes and customers of the gas and electricity sales SBU and the increase in volumes dealt with in gas trading operations. In the gas sales sector, the negative effect of the fall in commodity prices in the first months of 2016 was more than offset by the increase in acquired customers, also taking into account the above-described corporate acquisitions. In the gas distribution SBU, the fall in revenue from the transmission tariff, due to the sale of the gas distribution networks and plants in the Prato Municipality (approximately 77 thousand PDR) was offset by the increase in revenues from Energy Efficiency Certificates. Revenues from the Other Services Areas increased (Telecommunications, Energy Services and Renewables).
Adjusted external costs are increasing especially in the electricity sales and trading SBU due to the increase in sales volumes and relative purchase costs. The impact of adjusted external costs on adjusted revenues improves, which went from 89.6% to 88.9%, with a better unit marginality. The increase in labour costs going from Euro 31.2 to Euro 32.3 million is due to the combined effect of the reduction in personnel for the gas distribution SBU from the sale of Prato's networks and plants, corporate acquisitions in the Gas and electricity sales SBU and the new appointments to development the business.
Income from non-financial equity investments, for Euro 470 thousand in 2016, relates to the operating result of the associated company EDMA S.r.l.
Adjusted EBITDA for Euro 82.6 million (59.77 in 2015) showing an upward difference of 38.3%. The increase in Adjusted EBITDA is mainly due to the commercial sales of gas, electricity and for the consolidation of the companies Prometeo S.p.A., Coopgas S.r.l. and Gas Tronto (contributing Euro 7.2 million to total EBITDA at December 31, 2016), and the improvement in unit marginality and the development of policies for acquiring new customers.

The breakdown on the composition of Adjusted EBITDA is provided below, between the different SBUs for the year ended December 31, 2016 compared with the previous period:



Distribuzione gas naturale	Natural gas distribution
Vendita gas e luce	Gas and electricity sales
Trading gas	Gas trading
Corporate e Altre	Corporate and Other

Depreciation amounted to Euro 30.22 million compared to 18.99 in 2015. The main changes are:

- higher amortisation of intangible assets, which went from Euro 15.22 to 26.22 million as a result of investments for customer acquisitions through both corporate transactions and investments in existing companies;
- increase in amortisation of tangible fixed assets (3.9 compared to 3.77 million in 2015) for new investments in networks and plants, especially in the gas distribution segment. The positive change in

new investments compensated for the negative reduction due to the sale of nets and facilities to the Municipality of Prato in 2015;

Adjusted provisions amounted to Euro 14.22 million (10.7 in 2015). The increase is due to the higher provision for doubtful debts arising from new corporate acquisitions, resulting in a change in the scope of consolidation.
Adjusted EBITDA went from Euro 30.0 to 38.2 million, up by 27.2%.
Financial income and charges has a negative balance of Euro 9.4 million, up from Euro 7.9 million in 2015 because of:

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

Adjusted income before taxes for Euro 28.8 million improved by 30.3% compared to the Euro 22.1 million in 2015.
Adjusted net income amounted to Euro 17.7 million, compared to Euro 9.7 million in 2015.

7. PERFORMANCE – FINANCIAL POSITION

The main balance sheet and financial data at December 31, 2017, 2016 and 2015 is provided below.

Reclassified Balance Sheet	**As at December 31,**					
(values in thousands of Euro)	**2017**		**2016**		**2015**	
	Value	**Percentage**	**Value**	**Percentage**	**Value**	**Percentage**
Intangible assets	364,334	66.38%	348,778	66.27%	262,930	59.98%
Tangible assets	82,033	14.95%	47,882	9.10%	46,595	10.63%
Non-current investments and financial assets	39,083	7.12%	43,732	8.31%	52,664	12.01%
Fixed assets	**485,450**	**88.45%**	**440,392**	**83.68%**	**362,189**	**82.62%**
Other non-current assets and liabilities	(28,452)	-5.18%	(35,098)	-6.67%	(23,663)	-5.40%
Net working capital	106,898	19.48%	121,355	23.06%	109,786	25.04%
Other current assets and liabilities	(17,305)	-3.15%	(1,242)	-0.24%	(11,695)	-2.67%
Assets and liabilities held for sale	2,255	0.41%	857	0.16%	1,761	0.40%
Net capital	**548,844**	**100.00%**	**526,264**	**100.00%**	**438,378**	**100.00%**
Shareholders' Equity	**331,921**	**60.48%**	**320,521**	**60.90%**	**270,298**	**61.66%**
Net current financial Indebtedness	(151,316)	-27.57%	(129,064)	-24.52%	(126,509)	-28.86%
Non-current financial Indebtedness	368,240	67.09%	334,807	63.62%	294,589	67.20%
Net Financial Indebtedness	**216,924**	**39.52%**	**205,743**	**39.10%**	**168,080**	**38.34%**
Net capital	**548,844**	**100.00%**	**526,264**	**100.00%**	**438,378**	**100.00%**

7.1 FINANCIAL INDICATORS 2017 COMPARED TO 2016

With regard to the year ended December 31, 2017, fixed assets changed from Euro 440,392 thousand to Euro 485,450 thousand due to investments and business combination that occurred during 2017, net of disposals and depreciations.
The drop in net working capital is attributable to the concentration of trade receivables and the concurrent increase in trade payables, as well as the improved payment times recorded during 2017.
Net invested capital amount to Euro 548,844 thousand, with an increase of 4.29% compared to 2016.

Shareholders' equity at December 31, 2017 amounts to Euro 331,921 thousand (Euro 320,521 thousand in 2016). The changes in the year are the result of the period and the business combination operations and corporate disposals, acquisitions and disposals of minority interests in the year. The share on capital raised is stable at 60.48% (60.90% in 2016).
Financial debt stood at Euro 216,924 thousand (Euro 205,743 thousand in 2016). Non-current financial Indebtedness went from Euro 334,807 thousand to Euro 368,240 thousand as a result of the new medium and long-term funding undertaken.

7.2 FINANCIAL INDICATORS 2016 COMPARED TO 2015

Fixed assets rose from Euro 362.2 to Euro 440.4 million, mainly due to corporate transactions (Gas Tronto, Coopgas S.r.l. and Piceno Gas Vendita) in the gas and electricity segment, and because of the consolidation of Prometeo S.p.A. The aforementioned transactions have led to the main change in intangible assets, which go from Euro 262.9 million to Euro 348.8 million, an increase of Euro 85.8 million.
The increase in non-current liabilities and net working capital is due to the change in the scope of consolidation. There are no significant changes in the companies already consolidated at December 31, 2015.
Net invested capital amounted to Euro 526.3 million, an increase of around 20% compared to 2015.
Shareholders' equity at December 31, 2016 amounted to Euro 320.6 million (270.3 in 2015), an increase of 18.6% due to the result of the year and the consolidation operations of Prometeo S.p.A. with the entry of EDMA S.r.l. into the share capital of Estra Energie. The shares on capital raised is stable at 60.9% (61.7% in 2015).
Financial indebtedness amounts to Euro 205.88 million (168.11 in 2015). Non-current financial debt went from Euro 294.6 million to Euro 334.8 million due to the issue of a bond loan and the access to new medium and long-term loans.

7.3 NET FINANCIAL INDEBTEDNESS 2017, 2016 AND 2015

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	**As at December 31,**		
	(values in thousands of Euro)	**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 receivables	**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 Indebtedness (F) + (G) + (H)**	**90,717**	**198,820**	**173,063**
J.	**Net current financial Indebtedness (I) - (E) -(D)**	**(151,316)**	**(129,064)**	**(126,509)**
K.	Non-current bank loans	137,783	102,846	127,601
L.	Bonds 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**

At December 31, 2017 net financial Indebtedness stood at Euro 216,924 thousand, up on the Euro 205,743 thousand during 2016. The main changes in the composition of net financial Indebtedness relate to lower liquidity for Euro 69,466 thousand, and the reduction in current bank payables that went from Euro 115,815 to Euro 10,322 thousand. An increase was seen in non-current bank payables, which taking into consideration both medium and long-term bank debt, went from Euro 154,989 to Euro 205,046 thousand, as a result of the new medium and long-term funding undertaken.

At December 31, 2016 net financial Indebtedness had been Euro 205,743 thousand, up on the Euro 168,080 thousand during the previous year. The most significant change is recorded in medium and long-term debt, which increased by Euro 40,218 thousand, due to the increase in bond related debts that went from Euro 146,271 thousand in 2015 to Euro 213,046 in 2016, and the reduction in amounts due to banks for loans that totalled Euro 153,189 thousand compared to the Euro 174,443 thousand in 2015.

Over the course of the year, the Group procured financial resources through a new bond issue of Euro 80,000 thousand., with the aim of optimizing its flexibility and financial strength, as well as developing the Group's business. These resources were also utilised to support growth, based on investments and corporate acquisitions during 2016, which generated cash absorption for over Euro 34 million.
The Net Financial Indebtedness /Ebitda ratio improved, which, net of non-recurring items, went from 2.8 to 2.5.
The ratio between Net Financial Indebtedness / Equity was stable at 0.6.

7.4 MAIN FINANCIAL INDICATORS 2017, 2016 AND 2015

The following are the main financial and asset indices based on the consolidated financial statements at December 31, 2017, 2016 and 2015:

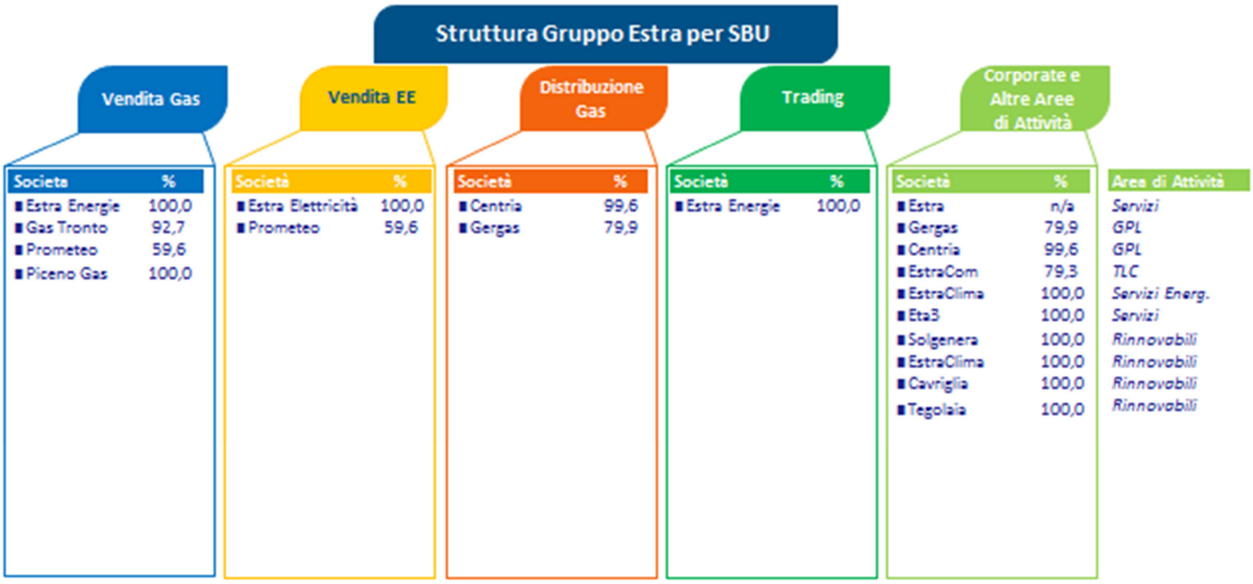
Consolidated financial position ratios	As at December 31,		
	2017	2016	2015
Solidity ratio (total non-current assets/total assets)	45.52%	40.28%	38.34%
Elasticity ratio (total current assets/total assets)	54.27%	59.53%	61.30%
Liquidity ratio (total non-current assets/total current assets)	83.87%	67.67%	62.55%
Net financial Indebtedness /Equity ratio- (Leverage)	0.7	0.6	0.6
Net financial Indebtedness /Adjusted EBITDA ratio	2.5	2.5	2.8
Short-term financial debt ratio	0.42	0.97	1.03
Long term financial debt ratio	1.70	1.63	1.75

The following are the main economic ratios based on the consolidated financial statements at December 31, 2017, 2016 and 2015:

Performance ratios	For the years ended as at December 31,		
	2017	2016	2015
EBITDA margin	8.5%	7.9%	6.9%
ROE	5.7%	5.4%	3.6%
ROI	8.3%	7.3%	6.8%

8. PERFORMANCE - ANALYSIS ACCORDING TO STRATEGIC BUSINESS UNIT (SBU)

The diagram below represents the Estra Group, specifying the companies that operate within the Strategic Business Units (SBU), or operating sectors, with the relevant percentage held by the Parent Company Estra S.p.A.:



Struttura Gruppo Estra per SBU	Structure Estra Group according to SBU
Vendita Gas	Natural gas sales
Vendita EE	Electricity sales
Distribuzione Gas	Gas Distribution
Trading	Trading
Corporate e Altre Aree di Attività	Corporate and Other Business Areas
Società	Company
Area di Attività	Business area
Servizi	Services
GPL	LPG
TLC	TLC
Servizi Energ.	Energy services
Rinnovabili	Renewables

The tables below refer to the Statements of Income for the years ended December 31, 2017, 2016 and 2015, subdivided among the different strategic business units.

Income Statements include financial transactions between business areas valued at market prices.

Operating segments 2017 (values in thousands of Euro)	**Natural gas distribution**	**Gas and electricity sales**	**Gas trading**	**Corporate and Others**	**Adjustments**	**Total**
Total adjusted revenues	96,841	659,607	287,863	48,445	-76,251	1,016,504
Adjusted external costs	-60,407	-591,705	-287,041	-33,099	76,251	-896,001
Personnel costs	-10,770	-9,580	-187	-13,682	0	-34,218
Financial income (expenses) from commodity risk management	0	0	150	0	0	150
Investments in an associate and a joint venture	0	0	0	225	0	225
Adjusted EBITDA	**25,664**	**58,322**	**785**	**1,889**	**0**	**86,661**
Adjusted amortisation, depreciation	-9,696	-14,118	0	-7,648	0	-31,462
Adjusted provisions	-129	-9,463	0	-186	0	-9,778
Adjusted EBIT	**15,839**	**34,741**	**785**	**-5,945**	**0**	**45,420**

Operating segments 2016 (values in thousands of Euro)	**Natural gas distribution**	**Gas and electricity sales**	**Gas trading**	**Corporate and Others**	**Adjustments**	**Total**
Total adjusted revenues	91,746	664,743	310,011	48,611	-74,690	1,040,421
Adjusted external costs	-54,937	-602,378	-307,777	-32,077	71,735	-925,434
Personnel costs	-11,534	-9,933	-170	-13,638	2,955	-32,320
Financial income (expenses) from commodity risk management	0	1,063	-1,601	0	0	-538
Investments in an associate and a joint venture	0	172	0	298	0	470
Adjusted EBITDA	**25,275**	**53,667**	**463**	**3,194**	**0**	**82,599**
Adjusted amortisation, depreciation	-9,497	-13,960	-	-6,749	-	-30,206
Adjusted provisions	-616	-13,333	-	-274	-	-14,223
Adjusted EBIT	**15,162**	**26,374**	**463**	**-3,829**	**0**	**38,170**

Operating segments 2015 (values in thousands of Euro)	**Natural gas distribution**	**Gas and electricity sales**	**Gas trading**	**Corporate and Others**	**Adjustments**	**Total**
Total adjusted revenues	92,234	552,406	261,716	48,945	-88,386	866,915
Adjusted external costs	-56,468	-513,649	-260,847	-31,971	85,844	-777,091
Personnel costs	-12,405	-7,551	-68	-13,745	2,541	-31,228
Financial income (expenses) from commodity risk management	-	62	-27	-	-	35
Investments in an associate and a joint venture	-	-	-	1,073	-	1,073
Adjusted EBITDA	**23,361**	**31,268**	**774**	**4,302**		**59,704**
Adjusted amortisation, depreciation	-9,966	-3,057	-	-5,902	-	-18,925
Adjusted provisions	-205	-8,483	-	-2,084	-	-10,772
Adjusted EBIT	**13,190**	**19,728**	**774**	**-3,684**	**0**	**30,007**

8.1 NATURAL GAS DISTRIBUTION

The table below contains the main economic data relating to the natural gas distribution business for the Estra Group for the years ended December 31, 2017, 2016 and 2015.

Natural Gas Distribution	For the years ended as at December 31,						Change in the period			
Income Statement for operating segment (values in thousands of Euro)	2017	% over Total Adjusted Revenues	2016	% over Total Adjusted Revenues	2015	% over Total Adjusted Revenues	2017 vs 2016	%	2016 vs 2015	%
Total adjusted revenues	**96,841**	**100%**	**91,746**	**100%**	**92,234**	**100%**	**5,095**	**6%**	**-489**	**-1%**
Adjusted external costs	-60,407	-62%	-54,937	-60%	-56,468	-61%	-5,469	**10%**	1,531	**-3%**
Personnel costs	-10,770	-11%	-11,534	-13%	-12,405	-13%	764	**-7%**	871	**-7%**
Adjusted EBITDA	**25,664**	**27%**	**25,275**	**28%**	**23,361**	**25%**	**389**	**2%**	**1,914**	**8%**
Amortisation, depreciation and impairment	-9,696	-10%	-9,497	-10%	-9,966	-11%	-199	2%	468	-5%
Provisions	-129	0%	-616	-1%	-205	0%	487	**-79%**	-412	**>100%**
Adjusted EBIT	**15,839**	**16%**	**15,162**	**17%**	**13,191**	**70%**	**678**	**4%**	**1,971**	**15%**

The table below sets out the main performance data for the Estra Group relating to the distribution of natural gas for the years ended December 31, 2017, 2016 and 2015.

	Financial year ending at 31 December			Change in the period			
Performance indicators	**2017**	**2016**	**2015**	**2017 vs 2016**	**%**	**2016 vs 2015**	**%**
Gas allocated in networks (Mln	578	554	652	24	4.4%	-97	-15%
PDR ('000)	400	396	394	4	1.0%	2	1%
Network kilometres	5,418	5,397	5,293	21	0.4%	104	2%

2017 performance compared to 2016

At December 31, 2017, the Natural gas distribution SBU recorded revenues from the transmission tariff, net of the fixed equalisation cost components compared to the previous year for a total of Euro 51.4 million. There was a significant increase in revenues from the trading of Energy Efficiency Certificates due to the higher unit pricing; overall revenues for TEEs went from Euro 12.8 million to Euro 17.7 million, with a corresponding increase in purchasing costs. Adjusted EBITDA went from Euro 25.2 million to Euro 25.7 million, impacting on the consolidated adjusted EBITDA for 29.6% (30.6% in 2016). Adjusted EBIT went from Euro 15.8 million, up by 4% on the previous year, impacting on adjusted revenues for 16%.
The main performance data was up regarding gas introduced into the grid, PDR and network kilometres, thanks to the new investments undertaken in 2017.

2016 performance compared to 2015

In the gas distribution SBU, the reduction in revenues from the transmission tariff, due to the sale of the gas distribution service networks and plants in the Municipality of Prato (approx. 77 thousand pdr) was offset by the rise in revenues from the trading of the Energy Efficiency Certificates due mainly to the increase in unit prices. The natural gas distribution sector recorded adjusted EBITDA in 2016 for Euro 25.3 million (23.44 in the previous year) and an adjusted EBIT for Euro 15.2 million (13.2 million in 2015).
It should be noted that the drop in the gas introduced into the grid in 2016 was due to the effect of the sale of the Prato facilities referred to above. Both active PDUs (+2.3 thousand) and network kilometres for new investments (+104 km) are increasing.

8.2 GAS AND ELECTRICITY SALES

The table below provides the main economic data relating to the Estra Group's sales of gas and electricity for the years ended December 31, 2017, 2016 and 2015.

Gas and electricity sales	**For the years ended as at December 31**						**Change in the period**			
Income Statement for operating segment (figures in thousands of Euro)	**2017**	**% over Total Adjusted Revenues**	**2016**	**% over Total Adjusted Revenues**	**2015**	**% on revenues**	**2017 vs 2016**	**%**	**2016 vs 2015**	**%**
Total adjusted revenues	**659,607**	**100%**	**664,742**	**100%**	**552,406**	**100%**	**- 5,134**	**-1%**	**112,336**	**20%**
External costs	-591,705	-90%	-602,376	-91%	-513,649	-93%	10,671	-2%	-88,727	17%
Personnel costs	-9,580	-1%	-9,931	-1%	-7,551	-1%	352	-4%	-2,380	32%
Financial income (expenses) from commodity risk management	-	-	1,063	**0**	62	**0**	-1,063	**- 1**	1,001	**16**
Income (expenses) from non-financial investments	-	-	172	**0**	-	-	-172	**- 1**	172	>100%
Adjusted EBITDA	**58,322**	**9%**	**53,669**	**8%**	**31,267**	**6%**	**4,653**	**9%**	**22,402**	**72%**
Amortisation, depreciation and impairment	-14,118	-2%	-13,960	-2%	-3,057	-1%		0%	-10,903	>100%
Provisions	-9,463	-1%	-13,333	-2%	-8,483	-2%	3,870	-29%	-4,850	57%
Adjusted EBIT	**34,741**	**5%**	**26,376**	**4%**	**19,727**	**4%**	**8,523**	**32%**	**6,648**	**34%**

The tables below set out the main performance data for the Estra Group relating to sales of natural gas and electricity for the years ended December 31, 2017, 2016 and 2015.

	Year ended at 31 December						**Change in the period**			
Number PDR gas	**2017**	**% over Tot.**	**2016**	**% over Tot.**	**2015**	**% over Tot.**	**2017 vs 2016**	**%**	**2016 vs 2015**	**%**
End free market	273,860	44.3%	259,138	42.0%	177,065	45.7%	14,722	5.7%	82,073	46.4%
End protected market	344,322	55.7%	357,303	58.0%	210,263	54.3%	-12,981	-3.6%	147,040	69.9%
TOTAL	**618,182**	**100.0%**	**616,441**	**100.0%**	**387,328**	**100.0%**	**1,741**	**0.3%**	**229,113**	**59.2%**

	Financial year ending at 31 December						**Change in the period**			
Gas volumes (Mln m^3)	**2017**	**% over Tot.**	**2016**	**% over Tot.**	**2015**	**% over Tot.**	**2017 vs 2016**	**%**	**2016 vs 2015**	**%**
End free market	1,011	77.5%	952	79.4%	917	83.8%	59	6.2%	35	3.8%
End protected market	293	22.5%	247	20.6%	178	16.2%	46	18.5%	69	39.1%
TOTAL	**1,304**	**100.0%**	**1,200**	**100.0%**	**1,095**	**100.0%**	**105**	**8.7%**	**104**	**9.5%**

	Year ended at 31 December						**Change in the period**			
Number POD/elec.	**2017**	**% over Tot.**	**2016**	**% over Tot.**	**2015**	**% over Tot.**	**2017 vs 2016**	**%**	**2016 vs 2015**	**%**
End free market	86,762	80.9%	121,306	85.4%	79,289	100.0%	-34,544	-28.5%	42,017	53.0%
End protected market	20,418	19.1%	20,748	14.6%	0	0.0%	-330	-1.6%	20,748	>100%
TOTAL	**107,180**	**100.0%**	**142,054**	**100.0%**	**79,289**	**100.0%**	**-34,874**	**-24.5%**	**62,765**	**79.2%**

	Financial year ending at 31 December						**Change in the period**			
Volume elec. (Gwh)	**2017**	**% over Tot.**	**2016**	**% over Tot.**	**2015**	**% over Tot.**	**2017 vs 2016**	**%**	**2016 vs 2015**	**%**
End free market	604	92.1%	660	93.2%	523	100.0%	-56	-8.4%	138	26.3%
End protected market	52	7.9%	48	6.8%	0	0.0%	4	7.7%	48	>100%
TOTAL	**656**	**100.0%**	**708**	**100.0%**	**523**	**100.0%**	**-52**	**-7.3%**	**185**	**35.5%**

2017 performance compared to 2016

At December 31, 2017 revenues from the gas sales segment were up compared to the previous year, due to the combined effect of the increase in sales' volumes, and the extended customer base, as well as the change in the

scope of consolidation with the acquisition of the controlling shares in Piceno Vendita Gas and the lower revenues from the balancing system for natural gas. The margins for the gas sales' segment had also risen.
Revenues for the electricity sales segment were down compared to the previous year due to the combined effects of the increase in revenues from the raw materials components and fixed portion, and the drop in revenues from the transport and despatch components. The fall in the volumes of electricity sold, mainly in the business segment was more than offset by improved margins in this sector.
Adjusted revenues for the gas and electricity sales SBU came down by Euro 5 million to total Euro 659.6 million. Adjusted EBITDA recorded a 9% increase on 2016, and came in at Euro 58.3 million, with an impact on revenue that went from 8% to 9%.
Adjusted EBITDA for the gas and electricity sales SBU contributed 67.3% to the consolidated adjusted EBITDA.
Amortisations and impairment for Euro 14.1 million corresponded with the figures during the previous period (14 million at 31 December 2015), whereas provisions came down by Euro 13.3 million to Euro 9.5 million. Adjusted EBIT at Euro 34.77 million, impacted for 5% on revenues and for 77.7% on consolidated adjusted EBIT.
Customer data at 31 December 2017 (No. PDR and no. POD electricity) take into account the reorganisation of the portfolio, which in December resulted in the sale by Estra Energie S.r.l. and Estra Elettricità S.p.A. of 11,500 gas contracts and 255,000 electricity contracts respectively to Canarbino S.p.A.

<u>2016 performance compared to 2015</u>

At 31 December 2016, revenues for the gas and electricity sales segment were significantly higher than the previous year due to the consolidation of Prometeo S.p.A., Coopgas S.r.l. and Gas Tronto, which contributed to also extending the customer base.
Adjusted EBIT amounted to Euro 26.4 million (Euro 19.7 million in 2015), whereas adjusted EBITDA came in at Euro 53.7 million compared to Euro 31.3 million in 2015, up by 72%.
In addition, the increase in the operating results can be attributed to the consolidation of the development activities aimed at extending the customer portfolio, which was done through external acquisitions and also internal activities focusing on market promotions.
Amortisations, depreciations and impairment for Euro 144 million, recorded an increase of Euro 10.9 million compared to the previous period: the change is attributable to the significant increase in amortisations on investments for the acquisition of new customers and developing the portfolio, which was done during the year through corporate operations and other commercial channels.
The increase in provisions for Euro 4.9 thousand (+57% on 2015) is attributable to the change in the scope of consolidation compared to 2015.

In 2016, gas customers (no. gas PDR) grew by 59.22% because of corporate transactions involving the companies Prometeo S.p.A., Coopgas S.r.l. and Gas Tronto (219 thousand customers) and the development of the business with other companies in the gas sales SBU (+10 thousand customers).
The growth of customers for the development of the business and the acquisition of Coopgas S.r.l. and Gas Tronto led to an increase in sales volumes of 9.6%, totalling 1,200 million m of gas sold.

Electricity sales customers (no. electricity POD) grew strongly (+63 thousand customers) compared to 2015. The growth in customers and volumes in the electricity sector is due to the development of the Estra Elettricità business (+24 thousand) and to customers acquired in 2016 from corporate transactions (+39 thousand). Volumes sold during 2016 totalled 708 GWh.

8.3 GAS TRADING

The tale below provides the main economic data relating to the gas trading sector of the Estra Group for the years ended 31 December 2017, 2016 and 2015.

Gas trading	For the years ended as at December 31						Change in the period			
Income Statement for operating segment (values in thousands of Euro)	2017	% on Total Adjusted Revenues	2016	% on Total Adjusted Revenues	2015	% on Total Adjusted Revenues	2017 vs 2016	%	2016 vs 2015	%
Total revenues	**287,863**	**100.0%**	**310,011**	**100.0%**	**261,716**	**100.0%**	**-22,148**	**-7.1%**	**48,295**	**18.5%**
External costs	-287,041	-99.7%	-307,777	-99.0%	-260,847	-100.0%	20,736	-6.7%	-46,930	18.0%
Personnel costs	-187	-0.1%	-170	0.0%	-68	0.0%	-17	10.0%	-102	> 100%
Financial income (expenses) from commodity risk management	150	0.1%	-1,601	-1.0%	-27	0.0%	1,751	> 100%	-1,574	> 100%
Gross operating margin (EBITDA)	**785**	**0.3%**	**463**	**0.0%**	**774**	**0.0%**	**322**	**69.5%**	**-311**	**-40.0%**
Amortisation, depreciation and impairment	0	-	0	-	0	-	-	-	0	-
Provisions	0	-	0	-	0	-			0	
Operating result (EBIT)	**785**	**0**	**463**	**-**	**774**	**-**	**322**	**1**	**-311**	**- 0**

The table below illustrates the main operating data for the trading business conducted by the Group for the years ended 31 December 2017, 2016 and 2015.

	Financial year ending at 31 December			Change in the period			
Performance indicators	**2017**	**2016**	**2015**	**2017 vs 2016**	**%**	**2016 vs 2015**	**%**
Volumes traded	1,482	2,042	1,065	-560	-27%	977	92%

2017 performance compared to 2016

The trading SBU saw a reduction in its business during 2017. The main company operating in this sector, Exo Energy Trading, merged with Estra Energie as from 01 October 2017 with a consequent reduction in operations. The improvement in operating margins resulted in a gross operating margin of Euro 785 thousand compared to Euro 463 thousand in 2016. There was a 0.9% impact on consolidated adjusted EBITDA. There were 1,481 thousand m^3 traded compared to the 2,042 thousand m^3 in 2016.

2016 performance compared to 2015

At 31 December 2016, the gas trading operating sector had a downward margin compared to the previous year, despite the increase in revenues from Euro 261.7 million to Euro 310.0 million in 2016, with a marked increase in volumes traded and reduced margins. The impact on the consolidated gross operating margin was 0.53%.
Volumes traded during 2016 stood at 2,042 thousand m^3 compared to 1,106 thousand m^3 in 2015.

8.4 CORPORATE AND OTHERS

The “Corporate and Others” segment includes services for the telecommunications, energy (heat and cogeneration) and renewables sectors, as well as the business conducted by the Holding in terms of the centralised coordination and management of corporate functions in respect of other companies in the Group.
The table below provides the main economic data relating to other SBUs in the Estra Group for the years ended 31 December 2017, 2016 and 2015.

Corporate and Other	Financial year ending at 31 December						Change in the period			
Income statement for operating sector (values in thousands of Euro)	2017	% over Total Adjusted	2016	% over Total Adjusted	2015	% over Total Adjusted Revenues	2017 vs 2016	%	2016 vs 2015	%
Total revenues	**48,445**	**100%**	**48,611**	**100%**	**48,945**	**100%**	-166	**0%**	**-334**	**-1%**
External costs	-33,099	-68%	-32,077	-66%	-31,971	-65%	-1,022	3%	-106	0%
Personnel costs	-13,682	-28%	-13,638	-28%	-13,745	-28%	-44	0%	107	-1%
Financial income (expenses) from commodity risk management	0	0%	0	0%	0	0%	0	-	0	
Investments in an associate and a joint venture	225	0%	298	1%	1,073	2%	-73	-25%	-775	-72%
Gross operating margin (EBITDA)	**1,889**	**4%**	**3,194**	**7%**	**4,302**	**9%**	**-1,305**	**-41%**	**-1,108**	**-26%**
Adjusted amortisation, depreciation and impairment	-7,648	-16%	-6,749	-14%	-5,902	-12%	-899	13%	-847	14%
Adjusted provisions	-186	0%	-274	-1%	-2,084	-4%	88	-32%	1,810	-87%
Adjusted EBIT	**-5,945**	**-12%**	**-3,829**	**-8%**	**-3,684**	**-8%**	**-2,116**	**55%**	**-145**	**4%**

2017 performance compared to 2016

At 31 December 2017, adjusted EBITDA for the Corporate and Other was Euro 1.9 million compared to Euro 3.2 the previous year. The reduction is mainly attributable to the corporate business that remained with the Parent Company and the drop in certain segments operating in the energy services. The telecommunications and renewables sectors had increased margins, with the latter due to the change in the scope of consolidation with the acquisition of controlling shares in Cavriglia and Tegolaia. Sales and margins were stable for the distribution and sale of LPG.
Amortisations were on the rise going from Euro 6.7 to 7.6 million due to the acquisition of controlling interests in Cavriglia and Tegolaia.

Adjusted EBIT was in the negative for Euro 5.9 million compared to the negative result of Euro 3.8 in 2016.

2016 performance compared to 2015

At 31 December 2016, the gross operating margin for the Corporate and Others was at Euro 3.2 million compared with the Euro 4.3 in the previous year.
Amortisations went up by Euro 847 thousand due to the acquisitions in the renewable energies sector.
Adjusted EBIT was negative for Euro 3.8 million, in line with the figures for 2015 (Euro 3.7 million).

9. RECONCILIATION BETWEEN THE RESULT FOR THE PERIOD AND THE GROUP SHAREHOLDERS' EQUITY WITH ANALOGOUS VALUES FOR THE PARENT COMPANY

The table below provides the reconciliation schedules for the period and the Group shareholders' equity with similar values for the Parent Company pursuant to Communication No. DEM/6064293 of 28-7-2006.

	Financial year 2017	
(thousands of Euro)	Group's net income for the year	Total shareholders' equity
Shareholders' Equity and net income for the period as reported in the Parent Company's financial statements	**17,779**	**389,146**
Results and elimination of value pertaining to fully consolidated subsidiaries	**58,454**	**16,708**
Reversal of investments' impairment	**1,529**	**34,806**
Elimination inter-group gains	**-31,382**	**-130,199**
Elimination treasury shares	**0**	**-900**
Consolidation operations with equity Method	**127**	**-2,648**
Other	**71**	**71**
Amortisation of consolidation difference	**-3,099**	**-9,389**
Elimination of effects from inter-group mergers	**903**	**903**
Elimination of inter-group dividends	**-30,188**	**-1,548**
Elimination of gains recognised under Shareholders' Equity	**-3,174**	**0**
Group Net income and Shareholders' Equity as reported in consolidated financial statements	**11,020**	**296,951**
Third-party portions of net income and shareholders' equity	5,046	34,970
Net income and shareholders' equity as reported in consolidated financial statements	**16,066**	**331,921**

10. SUBSEQUENT EVENTS

10.1 SHAREHOLDERS' MEETING APPROVAL OF THE APPLICATION FOR ADMISSION TO LISTING AND REQUEST TO PUBLISH THE PROSPECTUS

At the meeting of 05 March 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.

10.2 PARTIAL REPURCHASE OF ESTRA BONDS FOR A NOMINAL VALUE OF EURO 30 MILLION.

On March 3 2018, 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 28/11/2016, 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.

11. BUSINESS OUTLOOK

The objective for the next year is to continue with the current growth path aimed at confirming the role of the multi-utility at national level, and as a leading player in the energy market. These are important objectives that can be achieved through the directives of consolidation and developing the businesses where the Group operates.

2018 will also mark the process of attaining the corporate objective of a listing on the stock exchange. Entry into the exchange is a significant project that proposes consolidating Estra's position in the bracket of the leading national energy players, while at the same time, implementing public governance that can add value to the territories and sectors in which it operates.

12. SECTOR REGULATIONS

Below are the salient features of the main areas of developments in regulations for 2017, related to the various Estra Group business areas.

Natural gas sales

AUTHORITY RESOLUTION OF 29 DECEMBER 2016 - 819/2016/R/gas; AUTHORITY RESOLUTION 30 MARCH 2017 - 203/2017/R/gas; AUTHORITY RESOLUTION 28 JUNE 2017 - 492/2017/R/gas; AUTHORITY RESOLUTION 28 SEPTEMBER 2017 - 458/2017/R/gas. Quarterly update of the economic conditions of supplying natural gas for the protection service. These measures update the economic conditions of the natural gas supply service for the protected customer for each quarter in 2017.

AUTHORITY RESOLUTION 03 MARCH 2017 108/2017/R/gas. Procedures for determining the economic conditions for the protection service for natural gas as from 01 January 2018. This provision identifies the reference market for determining the CMEM component for the period as from 01 January 2018 and defines the levels for the CCR component.

AUTHORITY RESOLUTION 13 SEPTEMBER 2017 - 625/2017/R/gas. Update of percentages needed to define the standard supply profiles for the thermal year 2017-2018. This measure approves the updating of the percentage values required for the definition of standard sampling profiles for the 2016-2017 thermal year.

AUTHORITY RESOLUTION 28 SEPTEMBER 2017 - 656/2017/R/com. Update effective from 01 October 2017, of the tariff components intended to cover general expenses and the additional components of the electricity and gas sectors. Update effective from 01 January 2018, of a tariff component pursuant to the RTTG. This provision updates the tariff component with effect from 01 October 2017, covering the general system expenses and additional tariff components relating to the electricity and gas sectors and anticipates the update to CVFG component in coming months.

AUTHORITY RESOLUTION 27 December 2017 - 916/2017/R/gas. Update of the QVD component regarding the economic conditions for the natural gas for 2018. This provision defines the values of the QVD component to cover the costs of marketing the natural gas sales service to customers who benefit from the protection service in force from 01 January 2018.

Electricity sales

AUTHORITY RESOLUTION 29 DECEMBER 2016 - 818/2016/R/eel; AUTHORITY RESOLUTION 30 MARCH 2017 - 202/2017/R/eel; AUTHORITY RESOLUTION 28 JUNE 2017 - 493/2017/R/eel; AUTHORITY RESOLUTION 28 SEPTEMBER 2017 - 657/2017/R/eel. Quarterly update of the economic conditions for the sale of electricity in the enhanced-protection market. These measures update the economic conditions for the electricity sales service for the enhanced-protection market, for each quarter of 2017.

AUTHORITY RESOLUTION 16 FEBRUARY 2017 - 69/2017/R/eel. Enhanced-protection market service: mechanism compensating for the fixed costs incurred by service operators. This provision defines a compensation mechanism, for enhanced-protection operators, aimed at ensuring cover for the fixed costs incurred by operators in the event of an exit rate by customers that is higher than what was envisaged in the annual update of RCV components.

AUTHORITY RESOLUTION 9 MARCH 2017 - 126/2017/R/eel. Confirmation of the values for tariff components covering general expenses for non-domestic users in 2016 and the first quarter of 2017, subsequent to the conversion of Decree Law 244/16 into law. Based on the provisions under Decree Law 244/16 that amended the effective date for the reform on general system expenses for non-domestic users, setting it for 1 January 2018 instead of 01 January 2016, this resolution definitively confirms the rates for general system expenses for the aforementioned users that had already been resolves during 2016 and as from 01 January 2017.

AUTHORITY RESOLUTION 28 APRIL 2017 - 291/2017/R/eel. Criteria for the allocation of the lump-sum contribution to the Tax Agency, covering the expenses incurred by the sellers of electricity to charge the contextual fee on invoices, for the years 2016 and 2017. This provision sets the allocation criteria for the lump-sum contribution covering the expenses incurred by the sellers of electricity to charge the contextual fee on invoices, for the years 2016 and 2017.

CONSULTATION 25 MAY 2017 - 374/2017/R/eel. Revision of the time frame to determine and publish certain dispatching fees. This document contains the Authority’s guidelines regarding the revision of the time frame for Terna to determine and publish certain dispatching fees, so as to ensure that it is possible to apply dispatching fees in a “passing” manner both in relation to the PLACET offer (Offer at pricing that is freely determined at equivalent conditions in terms of protection) and in relation to any other offer on the free market, making matters simpler for both sellers and end customers, and reducing the administrative fees payable by the latter.

AUTHORITY RESOLUTION 28 JUNE 2017 - 481/2017/R/eel. Tariff structure for general system expenses for the electricity sector applicable as from 01 January 2018. Definition of the groupings for general system expenses. This resolution defines the tariff structure for general system expenses as from 01 January 2018.

AUTHORITY RESOLUTION 28 December 2017 - 927/2017/R/eel. Updating of RCV and DISPbt components relative to the marketing of electricity. Changes to the TIV. Additional provisions applicable to the populations affected by the earthquakes occurring on 24 August 2016 and thereafter. This resolution defines the values for the RCV and DISPbt components relating to the marketing for sales of electricity applicable as from 01 January 2018.

Sales of natural gas and electricity

Below are the main regulatory interventions that simultaneously affected the sectors of natural gas sales and electricity sales.

CONSULTATION 30 MARCH 2017 - 204/2017/R/com. Offers at pricing that is freely determined at equivalent conditions in terms of protection and minimum conditions for the free market to enable domestic end customers and small businesses in the retail electricity and natural gas markets. This consultation document contains the Authority’s guidelines on the introduction of the standard offers for electricity and natural gas, and for the revision of non-economic contract condition for other free market offers.

AUTHORITY RESOLUTION 18 APRIL - 252/2017/R/com. Provisions relating to tariff concessions and payment instalments for the populations affected by earthquakes occurring on 24 August 2016 and thereafter. This provision, implementing Decree-Law 189/2016, approves the concessions benefiting customers and users affected by the earthquakes of 24 August 2016 and thereafter, the procedures to access these, the procedures for instalment payments on invoices that are unpaid, the recovery of financial advances and offsetting - benefiting Integrated Information System (SII) operators and sellers in the electricity, natural gas and different gas sectors distributed via channelled grids - and the lower revenues arising from the application of the aforementioned concessions.

AUTHORITY RESOLUTION 25 MAY 2017 - 375/2017/R/com. Start-up of process to define a framework of the existing regulatory instruments and to promote new regulatory instruments to inform and enable the capability of end domestic customers and small businesses in the retail electricity and natural gas markets. This provision starts up the process to formulate a project to develop initiatives so as to inform and enable the capability of end domestic customers and small businesses in the retail electricity and natural gas markets.

AUTHORITY RESOLUTION 27 JULY 2017 - 555/2017/R/com. Offers "at pricing that is freely determined at equivalent conditions in terms of protection" (P.L.A.C.E.T. offers) and the minimal contract conditions for supplies to end domestic customers and small businesses in the retail electricity and natural gas markets. This provision contains the regulation for offers at pricing that is freely determined at equivalent conditions in terms of protection (PLACET offers) and the final minimal contract conditions for all electricity and natural free market contracts.

PRO-MEMORIA 5 OCTOBER 2017 - 673/2017/R/com. Pro-memoria of the Electricity Regulatory Authority for Gas and the Water Supply System regarding the draft law containing the "Regulations to protect consumers with regard to remittance invoicing for the supply of electricity, gas and water" (AC 3792). The pro-memoria contains the Authority's observations regarding the provisions included in the draft law, with reference to the regulatory aspects pertaining the invoicing the end customer and/or user.

AUTHORITY RESOLUTION 23 NOVEMBER 2017 - 783/2017/R/com. Provision relating to the revision of the implementation procedures regarding the withdrawal from electricity and gas supply contracts. This provision, which follows on from consultation document 544/2017/R/com, contains the operating procedures for managing the process of withdrawal due to a change in supplier via the SII, with reference to the electricity and natural gas sectors.

AUTHORITY RESOLUTION 5 DECEMBER 2017 - 848/2017/R/com. Identification of a tool to compare the offers at pricing that is freely determined at equivalent conditions in terms of protection (P.L.A.C.E.T. offers) and clarification on Authority Resolution 555/2017/R/com. This provision identifies the tool for comparing offers at pricing that is freely determined at equivalent conditions in terms of protection (P.L.A.C.E.T. offers) and clarifies Authority Resolution 555/2017/R/com.

<u>Natural gas distribution</u>

AUTHORITY RESOLUTION 6 APRIL 2017 - 220/2017/R/gas

Determination of provisional reference rates for gas distribution and measurement services for the year 2017. This provision approves the provisional reference tariffs for the gas distribution and measurement services for 2017, based on the provisions under article 3, paragraph 2 of the RTDG, taking into consideration the claims to correct data submitted by 15 February 2017. This resolution also extends the investigation pursuant to Resolution 256/2014/E/com to check on the accuracy of the data and information communicated to the Authority by the company Napoletana Gas S.p.A..

AUTHORITY RESOLUTION 18 May 2017 - 344/2017/R/gas. Provisions to simplify the procedure for analysing VIR-RAB deviations. Based on this resolution, the Authority introduced a simplification of the procedure for analysing VIR-RAB deviations, governed by Authority Resolution 310/2014/R/gas for cases where Municipalities certify the complete application of the Guidelines of 7 April 2014 drafted by the Ministry of Economic Development.

AUTHORITY RESOLUTION 03 August 2017 - 574/2017/R/gas. Start-up of the process to define standard costs inclusive of installation and commissioning the service to be applied to gas measurement groups, for 2018 and 2019. This provision initiates the process to define the standard costs inclusive of installation and commissioning the service to be applied to gas measurement groups, for 2018 and 2019. This measure stipulates that within the scope of this provision the sharing percentage for higher/lower investment costs incurred by companies in relation to the standard cost may be redefined.

AUTHORITY RESOLUTION 30 NOVEMBER 2017 - 791/2017/S/gas. Approval of the inspection referring to the safety of the natural gas distribution service. Approval of the inspection referring to the safety of the natural gas distribution service.

AUTHORITY RESOLUTION 14 December 2017 - 859/2017/R/gas. Updating tariffs for gas distribution and measurement services for the year 2018. This measure approves the mandatory tariffs for natural gas distribution, measurement and marketing, as referred to in Article 40 of the RTDG; different gas tariff options (RTGD Art. 65) and the two-month down payment equalisation amounts for the natural gas distribution service for 2018 (RTGD Art. 45). The same measure approved the maximum recognition amount of higher charges arising from concession fees, (RTGD, Art. 59), for distributing companies that have submitted an application and provided appropriate documentation.

AUTHORITY RESOLUTION 27 DECEMBER 2017 - 905/2017/R/gas. Implementation of the provisions under Law 124/2017 (annual law for the market and competition), referring to the simplification of the assessment procedure for refunds and tenders relating to the awarding of natural gas distribution services. Adoption of supplementary texts. The aforementioned Resolution in implementing the provisions under the annual law for the market and competition (Law 124/17), introducing the regulations for the simplification of the assessment procedure for refunds and tenders relating to the awarding of natural gas distribution services., approved:
- Annex A, containing the supplementary text of the Authority's regulations on determining and checking the refund value for the natural gas distribution grids in the scope of the sector tenders;
- Annex B containing the supplementary text of the Authority's regulations on tenders for the natural gas distribution service in the scope of the sector tenders;

The same Resolution cancels the Authority's Resolutions 113/2013/R/gas, 155/2014/R/gas and 310/2014/R/gas, in that these contains provisions that have been fully incorporated in the aforementioned texts, without any significant changes.

__Procurement, transportation and storage of natural gas__

Natural Gas transport
AUTHORITY RESOLUTION 23 FEBRUARY - 82/2017/R/gas. Start-up of process to formulate measures on tariffs and service quality for the transport of natural gas, for the fifth regulation period (5PRT). This resolution initiates the process to formulate measures on tariffs and service quality for the transport of natural gas and dispatching of natural gas, for the fifth regulation period.

AUTHORITY RESOLUTION 3 AUGUST 2017 - 575/2017/R/gas. Regulation criteria doe the natural gas transport service for the transitional period in 2018 and 2019. This resolution approves the tariff regulation for the transport of natural gas for the transitory period 2018-2019.

AUTHORITY RESOLUTION 16 November 2017 - 757/2017/R/gas. Approval of approved revenues for the transport and dispatching of natural gas for the year 2018. This resolution approves the revenues recognised for the transport and dispatching of natural gas for the year 2018.

AUTHORITY RESOLUTION 30 November 2017 - 795/2017/R/gas. Approval of transport and dispatching charges for natural gas for the year 2018. This resolution approves the tariff proposals for the transport and dispatching of natural gas for the year 2018.

Natural Gas storage
AUTHORITY RESOLUTION 12 January 2017 - 6/2017/R/gas. Capacity allocation arrangements for the integrated regasification and storage service for the 2017 - 2018 thermal year. This measure, in implementing the Ministry of Economic Development Decree of 7 December 2016, governs the method for calculating the reserve price for auctioning capacity-based auction procedures for the service Integrated regasification and storage for 2017/2018, and the criteria for defining reserve prices.

AUTHORITY RESOLUTION 06 April 2017 - 227/2017/R/gas. Formalities subsequent to the capacity storage allocation for the thermal year 2017/2018 - determination of the CCR component and corresponding variable CRV^{OS} unit fee. This measure: defines the levels for the *CCR* component and the CRV^{OS} fee for the next thermal year 2017/2018.

__Renewable energy systems__

OPINION 16 FEBRUARY 2017 - 63/2017/E/efr. Opinion of the Ministry of Economic Development on the schedules of the Ministerial Decree referring to the approval of the standard forms for the realisation, connection and operation of high-efficiency micro-cogeneration plants and micro-cogeneration plants supplied by renewable sources. The Ministry of Economic Development expresses its favourable opinion in this document to the draft Decree containing the standard forms to be used "for the realisation, connection and operation of high-efficiency micro-cogeneration plants and micro-cogeneration plants supplied by renewable sources", with a few suggestions to improve their efficiency.

AUTHORITY RESOLUTION 22 JUNE 2017 - 464/2017/E/efr. User status and integration of production facilities supplied by renewable sources and high-efficiency cogeneration plants. Year 2016. This Report refers to the current user status and the integration of production facilities supplied by renewable sources and high-efficiency cogeneration plants.

Energy Services and Energy Efficiency

AUTHORITY RESOLUTION 15 June 2017 - 435/2017/R/efr. Definition of the tariff contribution to cover costs incurred by electricity and natural gas distributors subject to obligations in the scope of the Energy Efficiency Certificates mechanism. This document approves the revision of the rules for determining the tariff contribution for the Energy Efficiency Certificates mechanism, based on the outcome of consultation document 312/2017/R/efr. This process was introduced in order to take into account the changes made to mechanism by Ministerial Decree of 11 January 2017 and the findings of the analysis initiated in terms of Resolution 710/2016/E/efr and approved with Resolution 292/2017/E/efr.

AUTHORITY RESOLUTION 06 July 2017 - 514/2017/R/efr. Approval of the update of the operational rules for Energy Efficiency Certificates (white certificates) pursuant to Authority Resolution 435/2017/R/efr and Inter-Ministerial Decree of 11 January 2017. This document approves the TEE market Rules drafted by the GME to implement Resolution 435/2017/R/efr (revising the rules to determine the tariff contribution for the Energy Efficiency Certificates mechanism, based on consultation document 312/2017/R/efr, subject of amendment). In addition, it provides the procedures to apply the provisions under article 16, paragraph 3 of Inter-Ministerial Decree of 11 January 2017 (pertaining to standardising the types of TEEs on the market), so that the GME can proceed with the additional amendments required.

AUTHORITY RESOLUTION 14 SEPTEMBER 2017 - 634/2017/R/efr. Progressive application of the rules on the tariff contribution pursuant to Authority Resolution 435/2017/R/efr and approval of update to the operating rules for the market and regulation for bilateral transactions in the scope of the Energy Efficiency Certificate mechanism (White certificates). This document approves the update to the market Rules and the Regulation for bilateral transactions for the TEEs prepared by the GME in implementing Resolution 514/2017/R/efr, in order to take into account the provisions under Inter-Ministerial Decree dated 11 January 2017 regarding standardising the types of TEEs on the market. An amendment is also introduced to the tariff contribution rules (defined by Resolution 435/2017/R/efr) so as to expand the time line whereby the competency criterion is introduced for determining the tariff contribution to be recognised in respect of distributors subject to the obligations in the case of offsetting energy savings target pertaining to previous years.

AUTHORITY RESOLUTION 05 December 2017 - 847/2017/R/efr. Approval of fees for the year 2018 for the operation of organised markets and platforms for the registration of bilateral exchanges of guarantees of origin and energy efficiency certificates managed by Gestore dei mercati energetici S.p.A.. This decision approves the fees for the year 2018 for the operation of the organised markets and the Bilateral Trading Registers of Origin Warranties and Energy Efficiency Certificates.

Telecommunications

FIBRE OPTICS DECREE - Italian Legislative Decree 33/2016

This represents a major innovation for the communications sector as it implements a 2014 European Directive and establishes standards to facilitate the installation of high-speed electronic communications networks. The measure:

- promotes the shared use of existing physical infrastructure by enabling a more efficient deployment of new physical infrastructures to reduce the cost of installing such networks;
- eliminates non-recruiting charges by removing the possibility that other municipalities impose taxes on the work of operators, which can therefore only be taxed for public land use (Tosap and Cosap);
- promotes innovative digging technologies, which in fact makes a push for the use of trenchless solutions, i.e. low environmental impact;
- introduces novelties for access to infrastructures, including the fact that refusal to access requests may only be opposed in some cases as a failure to accommodate elements of high speed electronic communications networks, space inaccessibility, Insertion is subjectively susceptible to determining or increasing the risk of public safety, safety or public health, or threaten the integrity and security of the networks;

- introduces the "infrastructure landfill", i.e. a mapping of existing fast electronic communications networks and any other functional physical infrastructure to accommodate them, present in the national territory;
- introduces novelties for condominiums, which are recognised by law and where required the obligation to meet all reasonable access requests submitted by network operators under fair and non-discriminatory terms and conditions, including with regard to price.

AGCOM RESOLUTION 12 JUNE 2017 - 72/17/CIR. Approval of the Telecom Italia reference offers for NGAN access services and for the end to end access for 2015 and 2016, as well as the Backhaul services for 2016.

AGCOM RESOLUTION 04/05/2017 - 184/17/CONS. Public consultation referred to the extension of the user rights for the 900 and 1800 MHz band frequency, pursuant to Law No. 232 of 11 December 2016.

AGCOM RESOLUTION 24/11/2016 - 557/16/CONS. Start-up of a survey regarding the development prospects for the wireless and mobile systems in respect of the fifth generation (5G), and the use of new portions of the spectrum above 6 GHz.

AGCOM RESOLUTION 01/12/2016 - 596/16/CONS. Approval of the Telecom Italia reference offers for 2015 and 2016 relating to the dedicated capacity transmission services (terminating circuits, interconnection flows, delivery kits and internal power station interchanges).

AGCOM RESOLUTION 14/11/2017 - 189/17/CIR. Start of procedure and public consultation regarding the approval of Telecom Italia reference offers for NGAN access services, the end to end access service and Backhaul services for 2017.

AGCOM RESOLUTION 21/12/2017 - 498/17/CONS. Injunction issued against Vodafone Italia S.p.A. for having breached Art. 3, paragraph 10 of Resolution. 252/16/CONS as amended by Resolution 121/17/CONS (claim no. 7/17/DTC).

AGCOM RESOLUTION 24/11/2016 - 557/16/CONS. Start-up of a survey regarding the development prospects for the wireless and mobile systems in respect of the fifth generation (5G), and the use of new portions of the spectrum above 6 GHz.

AUTHORITY RESOLUTION 14/01/2016 - 7/16/CONS. Introduction of database for all private and public proprietary access networks to the Internet existing in Italy (Art.6, paragraph 5 bis of Decree – Law no. 145 of 23 December 2013, converted with amendment by Law no. 9 of 2014).

Cross-cutting issues

LAW NO. 124 OF 4 AUGUST 2017, ANNUAL LAW FOR THE MARKET AND COMPETITION, PUBLISHED IN OFFICIAL GAZETTE NO. 189 OF 14 AUGUST 2017.[23]

Telecommunications

The elimination of a series of constraints is envisaged in the communications sector (paragraph 41), which currently apply to contracts with suppliers of telephony, television and electronic communication services.
It provides that:

- the charges for withdrawal and transferring user is well publicised and commensurate to the value of the contract and real costs incurred by the company, or the costs incurred to dispose of the telephone line or transfer the service and are communicated to Agcom;
- withdrawal procedures are simple and similar to those for activation, and the customer is guaranteed that the withdrawal or change in operator is communicated electronically;
- in the case of promotional offers relating to the supply of goods and services, the contract may not exceed a term of twenty-four months, and the penalty is fair and proportionate to the contract's value;
- operators must have prior express consent from customers for debiting of service costs on a subscription basis offered by third parties, it is forbidden for telephony and electronic communication operators to make it possible for the consumer or user to receive services on a subscription basis from

[23] Chamber of Deputies - Documents - Subjects of parliamentary activity

the same operator or third parties, without prior express and documented consent to activate this type of service.

Paragraph 43 increases the penalties payable for the infringement of any obligations in respect of companies designated for the supply of the universal service.

Paragraph 47 stipulates the use of the Digital Identity Public System (SPID) to simply customer migration procedures between mobile telephony operators, and the procedures for integrating additional SIMs required by customers that are already customers of an operator (additional SIM, SIM upgrade, SIM replacement), by electronically using the indirect identification of the customer (i.e. without needing to use an identity document).

Paragraphs 48-54 aim to promote digital payments and disbursement using mobility payment instruments, including direct debits on telephone credits.

Gas and electricity sales

Competition legislation has cancelled "enhanced-protection" for the natural gas sector, thus as from 01 July 2019, revoking the regulation whereby the Regulatory Authority defined gas tariffs for consumers that had not yet selected a supplier on the free market (paragraph 60). The "enhanced-protection market" is also eliminated with regard to the electricity sector (paragraph 61). The procedures replacing the enhanced-protection market regimen require that within six months from legislation coming into effect, ARERA (formerly AEEGSI) will send the Ministry of Economic Development a report on the monitoring of the electricity and gas retail sales market. The economic indicators in the report also refer to the protection of families experiencing financial difficulties, and the increase in the monitoring system and information available to protect consumers. Based on the data in the report, the Ministry of Economic Development will adopt an order that takes into account whether targets have been achieved and defines the measures needed to terminate the enhanced-protection market regimen. It should also ensure that end customers make an informed entry into market on the basis of mechanisms that safeguard competition. As from 01 January 2018, end customers of electricity supplied under the enhanced-protection market regimen should receive adequate information from each supplier regarding the end to price protection, in terms of the procedures set in the ARERA (formerly AEEGSI) provision (paragraphs 67-71). The provision and possible reformulation of the electricity and gas bonus is also envisaged, i.e. financial benefits to support economically disadvantaged customers and domestic customers that include family members experiencing serious health problems, to the extent that they require medical-treatment devices to keep them alive, which are supplied by electricity (paragraphs 76-78). An additional protection measure for consumers refers to instalment payments for very high electricity and gas bills ("maxibollette"), resulting from delays, interruptions in invoicing or the extended unavailability of actual consumption data (paragraphs 79-80). Finally, measures are included relating to the transparency of the electricity and gas market with the establishment of a List of parties qualified to sell to end customers that will be kept at the Ministry of Economic Development (paragraphs 81-85).

Natural gas distribution

Legislation introduces regulations governing the distribution of natural gas, starting with rules for tenders through to storage concessions (paragraphs 94 to 98).

Renewables and energy efficiency

Measures to simplify procedures relating to production facilities for energy from renewable sources and energy efficiency (paragraphs 90 and 91).

<u>BUDGET LAW 2018</u>

Energy efficiency

The budget law extends the 65% deduction until 31 December 2018 for the expenses related to works to make individual property units more energy efficient ("ecobonus") and introduces a new type of subsidised expenditure: the purchase and installation of micro-cogenerators to replace existing facilities.

Telecommunications

To accelerate the implementation policies for 5G, the law introduces a tender to be published for the frequency spectrum in the pioneer bands covered in the European Commission Action Plan, and frees up the 700 MHz band.

SEN 2017 - NATIONAL ENERGY STRATEGY [24]

The 2017 National Energy Strategy was adopted in terms of the Ministerial Decree of the Ministry of Economic Development and the Ministry of the Environment and Protection of the Territory and Sea. This represents the Italian Government's ten-year plan to anticipate and manage changes to the energy system.

Qualitative goals and quantitative targets
Italy has achieved its European goals in advance (with a penetration of renewables of 17.5% over total consumption in 2015 in relation to the 2020 target of 17%) and important progress has been made in terms of technology that offers new opportunities for reconciling the containment of energy prices and sustainability.

The Strategy sets the objective of making the national energy system more:

- competitive: improving the country's competitiveness, by continuing to reduce the gap between price and the cost of energy compared to Europe, in a context of increasing international prices
- sustainable: meeting the environmental and de-carbonisation objectives set at European level in a sustainable manner, in line with the future targets set by COP21
- secure: continuing to improve the security of procurement and flexibility of the system and energy infrastructure, to strengthen Italy's energy independence

The energy targets envisaged in the SEN include:

- energy efficiency: reducing final consumption from 118 to 108 MTOEwith a saving of approximately 10 MTOEby 2030;
- renewable sources: 28% renewables in relation to overall consumption by 2030 compared to 17.5% in 2015; in sector terms, the objective is broken down in a portion of renewables for electricity consumption of 55% by 2030 compared to 33.5% in 2015; in a portion of renewables for thermal uses of 30% by 2030 compared to 19.2% in 2015; in a portion of renewables in transport of 21% by 2030 compared to 6.4% in 2015;
- reduction in the pricing differential for energy: close the gap in costs between Italian gas the gas from Northern Europe (in 2016 at approx. € 2/MWh) and the gap on electricity pricing compared to the EU average (at approx. € 35/MWh in 2015 for the average household and at 25% on average for companies), stopping the production of electricity from coal with the objective of acceleration up to 2025, to be implemented with a precise plan of interventions for rationalising infrastructure on the oil downstream, moving towards bio-refineries and increased use of sustainable biofuels and LPG for heavy and maritime transport in the place of oil derivatives
- moving to decarbonisation by 2050: compared to 1990, a 39% reduction in emissions by 2030 and 63% by 2050;
- doubling investments in clean energy research and development: from Euro 222 million in 2013 to Euro 444 million in 2021
- promoting sustainable mobility and shared mobility services;
- new investments on grids for increased flexibility, adequacy and resilience;
- higher integration with Europe;
- diversification of sources and gas procurement routes and more efficient management of flows and demand points;
- reduction in energy dependence from abroad from 76% in 2015 to 64% by 2030 (ratio between import/export balance for primary energy needed to cover the requirement and internal gross consumption), thanks to the strong growth in renewables and energy efficiency.

The achievement of these objectives presupposes certain requisite conditions and cross-section actions:

- infrastructure and simplification: SEN 2017 introduces measures to simplify and rationalise regulations to ensure the realisation of infrastructure and facilities needed for the energy transition, without however weakening environmental legislation and protecting landscapes and the territory, as well as the level of participation in strategic choices;
- transition costs: thanks to technology developments and strict regulations, it is possible to take the opportunity to escalate efficiency and produce energy from renewables at sustainable costs. This is why

[24] "National Energy Strategy", November 2017 available on the Italian Ministry of Economic Development website, www.mise.gov.it.

the SEN follows an approach based mainly on enabling aspects and support measures that put technologies in competition and stimulate continual improvements on the side of efficiency;

- compatibility between energy objectives and protection of landscapes: the protection of landscapes is a fundamental issue, in terms of renewable sources with higher residual exploitable potential, namely wind and photovoltaic, priority will be given to decommissioned industrial areas, warehouses and roofs, as well as recovering efficiency in existing facilities. Running parallel to this, areas will be identified with the Regions and administrations protecting the environment, that have no other usage and can be utilised to produce renewable energy;
- social and employment effects of the transition: creating energy efficiency and replacing fossil sources with renewable sources generates a net positive balance in terms of employment, but this aspect needs to be monitored and regulated, intervening promptly to retrain workers wrong footed by new technologies and train new professionals, to generate work and growth opportunities.

13. TRANSACTIONS WITH RELATED PARTIES

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

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

The information on the balance sheet and income statement transactions with related parties and related companies is set out in the explanatory notes to the financial statements (Note 14 “Related parties”).

14. RISK MANAGEMENT

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

- ***Risk related to legislation and regulations***

The Group operates in a strongly regulated sector. Among the risk factors in its operations is therefore the not always foreseeable constant evolution of the laws and regulations applying to the electricity in natural gas sectors as well as the sectors involved in operating environmental services and the production of energy from renewable sources. The effects of changes in the regulatory framework, for example, can involve market operating methods, tariff plans, and the quality of service levels required and obligations of a technical-operational nature. Regulatory changes resulting in conditions that are unfavourable for sector operators can have negative effects on the Group's financial position in terms of lower revenues, reduced margins and/or the abandonment of initiatives already in progress. Given these risk factors, the Group adopts a policy of monitoring and managing legislative risk, in order to mitigate as much as possible its effects, through an articulated monitoring on several levels which provides for collaborative dialogue with the institutions and the government and regulatory organisations of the sector, the active participation in associations and work groups established within these entities, and examination of legislative changes and the provisions issued by the sector Authority.
Moreover, constant dialogue is held with business units interested in the legislative changes, in order to appropriately assess potential impacts. Some of the main areas on which legislative changes focus are listed below:
- the laws regarding assignment of concessions for the gas and electricity distribution service;
- the regulation of economically significant local public services;
- changes in the market regulations regarding Green Certificates;
- the issues set forth in the European Union's Third Energy Package.

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

With the exception of natural gas trading, conducting the aforementioned activities in Italy is subject to concessions or authorisations. In particular:

(a) natural gas distribution activities, the technical-operational management of LPG distribution networks are carried out on the basis of concessions issued by local public entities;

(b) the sale of natural gas and electricity, the sale of LPG, the production of electricity from renewable sources, the technical and operational management of telecommunications networks and the marketing of telecommunication services, the management of heat facilities owned by third parties (in particular, heat management services) and heat management activities, redevelopment and energy efficiency are carried out subject to having obtained specific authorisations from the authorities that are responsible from time to time.

The Group is therefore exposed to the risk of being awarded, maintaining and losing its concessions and authorisations, and having expired concessions.
In particular:

a) *Risks associated with being awarded, maintaining and losing concessions and expired concessions*
There is no guarantee that the concessions granted to the Group will be renewed on their expiry, or that possible renewals will be obtained at the same economic conditions as the existing ones. Furthermore, the Group could require additional concessions, permits and/or authorisations, which may entail long, costly, complex procedures with an outcome may not be predictable.

b) *Risks associated with being awarded, maintaining and losing authorisations*
The sale of natural gas and electricity, the sale of LPG and management of photovoltaic plants to produce electricity are conducted by the Group subject to obtaining specific authorisations from the authorities responsible from time to time. These authorisations are granted on the basis of having certain requirements needed to conduct the service. It cannot be guaranteed that the authorisations obtained by the Group will not be revoked by the relevant authorities. In addition, the Group could require additional authorisations, which may entail long, costly, complex procedures, with an unpredictable outcome.

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

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

- ***Risks arising from the approval of new tariff systems***

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

- ***Risk related to competition***

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

- ***Risks associated with future consumer trends***

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

- ***Environmental risks associated with Group activities***

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

- ***Liquidity Risk***

Liquidity risk represents the risk that Estra and the Group may be unable to meet its payment obligations when they fall due. The Group's liquidity could be damaged by inability to sell products and services, unexpected cash outflows, the obligation to pay more guarantees or inability to access the capital markets. This situation may arise due to circumstances beyond the control of the Group, such as a general market disruption or an operational problem affecting the Group or third parties, or even the perception among market participants that the Group or other participants market are experiencing a more severe liquidity risk. The liquidity crisis and loss of confidence in financial institutions can increase the cost of financing the Group and hinder access to some of its traditional sources of liquidity.

Please refer to Note 13 "Objectives and Criteria for managing financial risk" for more information.

- ***Risks associated with debt***

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

Existing bond loans and funding stipulate specific obligations that the Group must comply with.
In addition, some financing contracts signed and bond loans issued by the Group require that the for the entire term of the funding, the Group must comply with specific asset-financial indices, with compliance in this regard generally checked on an annual basis (or with reference to the close of each financial year based on the results in the relevant consolidated financial statements or financial statements of the Contracting Group Company). 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.
Some of the financing contracts also provide for a series of default events (in certain cases, also referring to the companies belonging to the Group).
The Group's ability to meet its obligations in terms of existing bank funding conditions depends on the Group's future operational and financial performance, which in turn are linked to the Group's ability to successfully implement its corporate strategy and other economic, financial, competition and regulatory aspects beyond the Group's control.
The Group therefore needs to continue allocating a portion of its cash flow to service existing debt financing, by reducing available financial liquidity for operational and/or investment activities and further influencing the Group's ability to distribute dividends.
At 31 December 2017, the Group had complied with the financial parameters set by existing funding contracts.

Please refer to Note 13 "Objectives and Criteria for managing financial risk" for more information.

- ***Interest rate risk***

Estra and the Group are exposed to fluctuations in interest rates, especially as regards the extent of financial charges associated with borrowings. They mitigate the risk deriving from floating-rate loans through investments and the use of funds essentially indexed to short-term rates. In addition, the interest rate risk management policy pursues the aim of limiting such volatility by identifying a mix of fixed rate and floating rate medium/long-term loans and the use of derivative instruments of IRS contracts signed with financial counterparties of primary standing and which limit interest rate fluctuations. Taking into account the active interest rate risk monitoring policies, any future rise in interest rates should not have particularly negative effects on the financial position of Estra and the Group.
Please refer to Note 13 "Objectives and Criteria for managing financial risk" for more information.

- ***Foreign exchange rate risk***

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

- ***Commodity price risk***

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

- ***Risks associated with relations with Group companies***

The Group has maintained, and still maintains, significant commercial relations with associates and shareholders. Specifically, the main transactions put in place with related parties refer to: (i) existing servicing contracts with shareholders Consiag, Coingas and Intesa; (ii) charging back personnel costs ordered by companies in the Estra Group with shareholders Consiag and Intesa; (iii) rental contracts for the leasing of the corporate offices in Prato, Arezzo and Siena, respectively by Consiag, Coingas and Intesa; (iv) financing contracts with Consiag and Coingas; and (v) service contracts with EDMA S.R.L. and EDMA Reti Gas.
While the Group believes that the conditions provided for and effectively implemented with regard to related parties correspond with normal market conditions, there are no guarantees that where the transactions referring to relations with related parties were concluded with third parties, that the latter had negotiated and drafted the relevant contracts, or carried out the aforementioned operations, based on the same conditions and procedures.
Please refer to Note 14 "Related parties.

- ***Risks deriving from current judicial proceedings***

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

- ***Operational risk***

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

- ***Credit risk***

The credit risk of Estra and the Group is mainly attributable to the total trade receivables deriving from gas and electricity sales, which are not particularly concentrated as they are spread across a vast number of counterparties such as retail, business and public entities. In conducting its business activities the Group is exposed to the risk that, as a result of the financial position of the obligated party in relation to the current overall economic-financial crisis, the receivables may not be paid when due. Consequently, the risks are attributable to the increase in the seniority of receivables, insolvency risk and the risk of an increase in receivables subject to bankruptcy proceedings with subsequent impairment that could result in the cancellation, wholly or in part, from the financial statements.

The Group adopts a centralised credit management policy aimed at regulating the assessment of customer receivables and other financial assets of the latter, the monitoring of the required recovery flows, the issuing of payment reminders, where deemed necessary or appropriate, the granting of extended credit conditions, the requirement of bank or insurance sureties, passing on lapsed customer debt to external credit recovery agencies and the management of legal disputes for receivables relating to services provided. The terms of payment generally applied to customers are based on existing regulations and are in line with free market standards; in the event of non-payment, the default interest shall apply to the extent indicated in the contract of delivery and established by the applicable law. Allocations to the bad debt provision reflect the best estimate of the credit risk. A default by one or more customers or significant counterparties for the Group or the possible increase in the rate of default by customers or counterparties in general could have negative effects on the Group's business and prospects, and well as its economic, asset and financial position.
Please refer to Note 13 "Objectives and Criteria for managing financial risk" for more information.

- ***Risks associated with the Group's acquisitions***

The Group concluded a number of acquisitions of companies and business units over the three-year period 2015-2017. Even though prior to finalising the aforementioned transactions, the Company had conducted due diligence on the companies or the business unit being acquired, as applicable, it cannot be excluded that liabilities may emerge into the future that were not covered by contract guarantees and/or that the sellers were not able to meet possible compensation claims.

- ***Risks associated with write-offs relating to goodwill and intangible assets with a definite useful life***

Subsequent to the business combination operations concluded over time, and in accordance with IFRS, the Group recognised the goodwill relating to the companies acquired, intended as the excess of the purchase cost in relation to the assets and liabilities acquired, as well as the intangible assets with a definite useful life, in particular gas and electricity customer portfolios, referring to the business combination operations.
In the event that the macroeconomic and financial context should not correspond to the estimates and assumptions made during the appraisal or if in the future, the Group should find its capacity to generate financial flows and economic results should worsen in relation to the provisions and estimates on which the impairment tests were based, it could become necessary to make adjustments to the book value of the intangible assets recognised in the Group's consolidated financial statements, with the consequent need to state the write-downs in the income statement, with negative effects on assets and the Group's outlook, as well as its economic, asset and financial position.
Please refer to Note 10.1.4 "Impairment test".

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

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

- ***Information technology risks***

Estra and Group activities are managed through complex IT systems that support the main corporate processes, whether operational, administrative or commercial. The inadequacy or failure to update these information systems according to the requirements of the business, their potential unavailability, the inappropriate handling of aspects relating to confidentiality and integrity of the information, represent potential risk factors that the Group is exposed to.
The inadequacy or failure to update these information systems according to the requirements of the business, their potential unavailability, the inappropriate handling of aspects relating to confidentiality and integrity of the information, could represent negative effects on assets and the Group's outlook, as well as its economic, asset and financial position.

- ***Risks associated with insurance cover***

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

15. USE OF FINANCIAL INSTRUMENTS

The Group monitors the holding of derivative financial instruments in 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;
- 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;
- Commodity forward contracts for purchase or sale that provide physical gas delivery in subsequent years.

For additional information on the objectives and criteria for managing financial risk (interest rate risk, sensitivity to interest rate, credit risk, liquidity risk, default risk and covenant), please refer to the relevant paragraph in the Notes to the financial statements.

16. NON-FINANCIAL DECLARATION

Directive 2014/95/EU ("Barnier Directive") introduced certain disclosure obligations regarding non-financial information for large public interest entities, under Italian legislation. The Directive was incorporated by Legislative Decree 254/2016, which becomes applicable as from the financial years starting 01 January 2017. The non-financial declaration contains information on environmental, social and staff issues, compliance with human rights, the fight against active and passive corruption that are significant for understanding how the business is performing, its results, its position and the impact of its activities.
The non-financial declaration can be a separate report or be included in the Management Report. In accordance with article 5, paragraph 3, letter b of Legislative Decree 254/2016, the Estra Group has prepared a consolidated non-financial declaration in a separate report. The consolidated non-financial declaration for 2017, prepared according to GRI Standards, was approved by the Board of Directors on 5 March 2018 and is available on the Group's website.

17. THE MAIN CHARACTERISTICS OF THE EXISTING RISK MANAGEMENT AND INTERNAL AUDIT SYSTEM IN RELATION TO THE FINANCIAL DISCLOSURE PROCESS, INCLUDING THE CONSOLIDATED (DISCLOSURE PURSUANT TO ART. 123-BIS, PARAGRAPH 2. B) OF LEGISLATIVE DECREE 58/98)

The completeness, correctness and timeliness of financial disclosure is guaranteed by the adoption of an efficient and effective Group internal audit system, which is subject to ongoing improvement and reformulation in relation to developments in corporate activities, the regulatory framework and economic-social context. An incentive to improve the Internal Audit System for Financial Disclosure was provided by the legislator with Law 262/05.

The incorporation of the rules set by the aforementioned legislation represent a significant opportunity for Estra to improve its Internal Audit System for Financial Disclosure, to that it remains constantly monitored, more structured in terms of methodology and documented so as to make it possible for the people concerned to conduct their checking.

Estra recently formalised a procedure that defines the principles, methodologies, characteristics, operational logic, roles and responsibilities related to the established and maintenance of the Estra Group's Internal Audit System over time, as well as the assessment of its ongoing effectiveness in terms of adequacy and functioning. The CoSO Internal Control Integrated Framework was the reference model adopted, providing the most generally accepted, rigorous and complete methodology.

The system was used to formulate the 2017 financial statements and includes the following elements:
- identification of the controls inherent to the management process monitoring risks on financial disclosure;
- definition of information flows that must take place between the Estra Group functions and the Administration and Budget Departments;
- the identification of the tasks and responsibilities of the functions responsible for the preparation of accounting documents;

the procedures that define the operational methodologies adopted by Estra and the companies in the Group for the main administrative or accounting processes and the preparation of corporate accounting documentation.

Additional methodologies and internal testing and report activities are further planned during 2018 so as to render the Internal Audit System on Financial Disclosure fully operational.

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

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

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

18. INFORMATION TECHNOLOGY ORGANISATION

The architecture of Estra's information system is characterised by the latest generation software, which has the internationally certified database called SAP, within which the vertical SAP-ISU is used to manage energy customers (gas and electricity) on a standard DB2 database produced by IBM. The SAP IS-U module makes it possible to manage all activities relating to customer relations (front-office, invoicing, printing of bills, post invoicing, meter reading, etc.) and, based on parametrisation functions, can be configured according to specific corporate services.
The information system is based on an ERP (Enterprise Resources Planning) that also integrates all the typical traditional corporate functions of an ERP with the CRM (Customer Relationship Management) functions and is integrated by a Business Intelligence programme called SAP-BW.
In addition to the aforementioned SAP application, other specialised software is also utilised. A group of this software is connected to the SAP system via specific Connectors, such as ARXIVAR, document software for the electronic storage of incoming documents to the company and their protocol registration.
Other software interfacing with the SAP system via ETL technology (Extract, Transform, Load, refers to the process for extracting, processing and loading data via files), such as TLQ for managing treasury flows with credit institutions, integrated with SAP or the HR module ADP + Micronterl on a dedicated platform to produce payslips and for personnel management.

In 2017, data migration projects continued so as to centralise the newly acquired companies' IT procedures and various projects were completed referring to regulatory compliance (ARERA [formerly AEEG] resolutions) both in relation to the distribution and sales companies.

In the sales area, the revision of institutional portals and WEB customer areas was completed. The design of a new CRM is currently being examined to manage customers not only by internal operators but also by call centres and agencies, providing a more advanced tool with information from numerous sources including social media (Facebook, Twitter, chat, etc.).

Other projects are planned for 2018, which are currently in the release phase for the area of accounting and management control, budget and planning.

Special attention was given to data security, with specific audits on the correct protection of data and compliance with the European GDPR regulation that will come into effect on 25 May 2018.

19. PERSONNEL AND TRAINING

The average staff of 2017, taking into account the number of seconded personnel, is 643 employees. The table below shows the consistency by category and the comparison with 2016 and 2015:

Role	31/12/2017	31/12/2016	31/12/2015
Managers	17	16	9
White collar and Executives	515	481	400
Blue collar	112	119	125
Total	**644**	**616**	**534**

In Estra Group, promotion of human resources is a key element in close correlation with the strategies and objectives of growth, innovation and development, to create value for the enterprise and to guarantee high standards of quality and safety while respecting the territory.
In all of this, staff training is a key tool not only to provide the necessary professional training to address the challenges of the future, but also to foster and maintain a working environment characterised by a positive climate, collaboration and strong corporate identity.
Special focus was also given to ongoing training on technical, professional and/or managerial skills based on the analysis of specific individual and corporate training requirements or compliance with legislative obligations.

Training during 2017 involved more than 86% of the workforce, equalling 555 employees, involved in 17,526 hours of training across a broad range of issues, including accounting and administrative aspects, safety in the workplace, risk management, Energy Efficiency Certificates, industry 4.0 and the Organisation, Management and Control Model (MOGC).

Total and average number of training hours

	2016	**2017**
Total number of training hours	14,347	17,526
Average number of training hours per worker	23.29	27.21

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

20. QUALITY, ENVIRONMENT AND SAFETY

To achieve the objectives set in relation to quality, the environment and safety, during 2017, Estra Spa and the companies in the Group (Estra Energie, Estra Com and Estra Elettricità) conducted their operations through concrete actions for the reorganisation of their management systems, by adopting an Integrated System for certifications and UNI EN ISO 9001:2015, UNI EN ISO 14001:2015, OHSAS 18001:2007 and UNI CEI ISO/IEC 27001:2014.

In the course of 2017, internal and planned audits were carried out regularly to maintain and/or recertification the Quality and Environment system with positive results.
The specific certifications held per company are detailed below:

- Estra Spa - adoption of an integrated system with re-certification and concurrent move to the new 2015 version for existing systems of UNI EN ISO 9001:2015, UNI EN ISO 14001:2015 and the ex novo acquisition of OHSAS 18001:2007 and UNI CEI ISO/IEC 27001:2014 standards;
- Estra Energie - adoption of an integrated system with re-certification and concurrent move to the new 2015 version for UNI EN ISO 9001:2015 and the newly acquired UNI EN ISO 14001:2015 and OHSAS 18001:2007 standards;
- Estra Com - adoption of an integrated system with re-certification and concurrent move to the new version for UNI EN ISO 9001:2015, UNI CEI ISO/IEC 27001:2014 and OHSAS 18001:2007 re-certification and newly acquired UNI EN ISO 14001:2015;
- Estra Elettricità - newly acquired OHSAS 18001:2007 standard.

Mandatory information on personnel

There were no:
- fatal work accidents involving personnel enrolled in the employee register, for which corporate responsibility was positively established;
- serious accidents at work that resulted in serious or very serious injury to personnel enrolled in the employee register, for which corporate responsibility was positively established;
- charges in respect of occupational diseases of employees or former employees and anti-mobbing actions for which the company was declared ultimately responsible.

Mandatory information on environment

There were no:
- environmental damages for which the company was found guilty in the final judgement;
final sanctions or penalties imposed on the company for offences or environmental damage;

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

In terms of the provisions under Law of 4 April 2012, inter alia, the DPS was referred to as the "Document Analysing and Defining Activities relating to Privacy". and was subject to periodic and possible extra revisions. This was done during the 2016. Due to the publication of the new European regulation on the subject (GDPR), a project has already been planned to completely review the procedures and methods for processing data, which will start during the first half of 2017 with the aim of making the company compliant with the new regulation by May 2018. At the same time, current procedures for maintaining the document will remain operational. The document is in fact a point of reference for providing a coherent storage logic for data in articulated structures, so that privacy is managed in an orderly fashion; it is also a tool providing an accurate reconstruction of criteria based on which choices were made on how to incorporate the regulation. The contents of the documents essentially summarise the provisions set forth by the Authority.

21. RESEARCH AND DEVELOPMENT

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

Specifically, the Group is investing in research, development and innovation for optimisation, operational efficiency and introduction into its own processes and products of innovative technologies.

During 2017, the Group continued the research initiated in previous years in the gas distribution sector. Partnerships of universities, research institutes and specialised software companies has been embarked on a broad path of re-engineering of project and organisational activities in the perspective of the forthcoming tenders. The project saw significant investments by the Group not only in software development and process innovation but also in the development of internal staff skills.

The more significant initiatives implemented by the Estra Group in 2016 and 2017 include E-qube, the open meter trial, E-distribution and 5G Technology. Further information is in the consolidated 2017 non-financial declaration, to which reference is made.

The Estra projects confirm the Group's approach aimed at ongoing research into new technology frontiers and innovation in the field of telecommunications, from the perspective of being a natural complement to the core business activities in the natural gas and electricity sectors, and collaborating closely with the territories where we operate.

22. RELATIONS WITH SUBSIDIARIES, ASSOCIATES, PARENT COMPANIES AND COMPANIES SUBJECT TO THE CONTROL OF THE LATTER

Estra and the Group companies establish transactions with related parties inspired by principles of transparency and fairness, which are governed by the terms and conditions normally applied in such situations.

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

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

23. OTHER INFORMATION

Treasury shares and shares of parent companies

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

Corporate Offices

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

On behalf of the Board of Directors
Prato, March 5, 2018 the Chairman
Francesco Macrì