



Annual financial report

31 DECEMBER 2017

GREEN NETWORK S.p.A.



Green Network S.p.A.

Company subject to management and coordination by Sc Holding S.r.l.

Registered Office:

Viale della Civiltà Romana, 7 - 00144 Rome

Share capital:

Euro 15,636,000, fully paid-up

Rome REA (Economic Administrative

Register):

no. 1033355

Rome Register of Companies:

no. 07451521004

CORPORATE BODIES

BOARD OF DIRECTORS

- ◆ Piero Saulli (Chairman)
- ◆ Sabrina Corbo (Executive Deputy Chairman)
- ◆ Giovanni Barberis (General Manager)
- ◆ Giuseppe Martini (Director)

BOARD OF STATUTORY DIRECTORS

- ◆ Fabio Sottini (Chairman)
- ◆ Federico Pecorini (Standing auditor)
- ◆ Marlon Rizzo (Standing auditor)
- ◆ Albarosa Zaniboni (Alternate auditor)
- ◆ Stefano Galdi (Alternate auditor)

INDEPENDENT AUDITORS

- ◆ PricewaterhouseCoopers S.p.A. ⁽¹⁾

(1) For the 2016 - 2018 period

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I – DIRECTORS' REPORT ON OPERATIONS

REFERENCE CONTEXT

Green Network S.p.A. (hereinafter also referred to as the “company”) is an energy company: specifically, its business purpose is trading in electricity and gas. Through its subsidiaries, it also produces electricity from renewable sources.

Pursuant to Article 2497-*bis*, paragraph 4, of the Italian Civil Code, it is noted that the company is subject to management and coordination on the part of SC Holding S.r.l..

General economic background

In 2017, the international economy expanded at a moderate pace, with variations seen across different countries.

In particular, the positive growth differential between the US and European economies was strengthened and uncertainties about the growth and development of the Chinese economy and the trade capacity of emerging markets increased.

The global economy is still growing at a satisfactory rate. In the USA economy GDP was estimated to have risen (+0.8%) during the fourth quarter of 2017; growth is driven by the components of demand which make a positive contribution.

Helpful to this result were both an upswing in expenditure on household consumption and, even if to a lesser extent, fixed investments. There was an overall improvement in the labour market and a decrease in the unemployment rate, which led to the normalisation of monetary policy.

The Chinese economy grew considerably with GDP of +6.9%, a result which exceeded expectations and gives the Government more room for manoeuvre in pulling back debt and boosting the drive towards less polluting technologies. GDP in Japan rose by 1.6% compared to the same period of the previous year, an encouraging figure to which both private household demand and exports contributed.

In the euro area the leading and coincident indicators of the economic cycle confirm the continuation of a positive trend in the months to come: improvements in all economic sectors are forecast. A growth phase has stabilised (in spite of a slight slowdown in the last quarter) due to rises in final household consumption, investments and stocks. Net exports also gave a positive contribution.

These growth prospects are also sustained by ECB announcements regarding the maintenance of a moderately expansive monetary policy in 2018.

During the year GDP increased by more than 1.4%: a crucial part is played by domestic demand, which consists of household consumption and investments. Unemployment rate decreased to 10.8% in December 2017, down by 1.2% compared to December 2016. In 2017 inflation came to 1.2%, but was still less than the targets in the medium term.

Consumer and business confidence remains at a high level; in December 2017 the consumer confidence climate continued to improve after the setback the month before.

The leading indicator went on improving, even if at slower rates than in the two previous months, which suggests that the present rate of growth of the economy will continue.

Italian legislative and regulatory framework

The main developments in the relevant legislative and regulatory framework for Green Network S.p.A. (the “Company”) and for the Green Network Group (the “Group”) are described below.

Commercial quality of sales

With Resolution 413/2016/R/com, the Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, or ARERA) has approved the new Consolidated Text for the regulation of the commercial quality of electricity and gas sales services (TIQV), in force from 1 January 2017. The Resolution also provides for changes to the regulation of the handling of customer complaints. Recently the TIQV was updated by Resolution 795/2016/R/com, making additions to the provisions concerning the provision of technical data by the distributor.

With Resolution 228/2017/R/com, ARERA approved the Consolidated Text on the measures preparatory to the confirmation of contracts for the supply of electricity and/or natural gas and the voluntary reinstatement procedure (TIRV) for contracts negotiated at a distance or away from the seller's commercial premises, as well as the voluntary reinstatement procedure both for the end user and the seller if the said preventive measures have not been observed in the contract confirmation phase.

Invoicing

Resolution 501/2014/R/com with subsequent amendments and integrations (“Bill 2.0”) has specified the criteria for the transparency and simplification of electricity and natural gas bills starting from 1 September 2015. These provisions apply to smaller customers, and then to low-voltage electricity customers and natural gas customers with private consumption up to 200,000 Smc.

With Resolution 463/2016/R/com, ARERA has sought to define the standard contract terms of commercial offers that must be proposed, starting from 1 January 2017, by all sellers in the market in order to put end users in a position to compare the offers of the various companies.

At the same time, the Authority approved the Consolidated Text for Billing (TIF), combining in a single document all the provisions relating to both period billing and year-end billing and the management of gas and power meter readings by customers in cases of transfer or change of ownership. Furthermore, the new consolidated text now also covers the regulation of indemnities relating to billing and of monitoring activities. Subsequently, with Resolution 738/2016/R/com, additions were made to the TIF as regards mixed billing, meter readings by customers, indemnities to be paid to end customers and instalment plans.

Non-payment and Withdrawal

With Resolution 258/2015/R/com ARERA set out the first provisions regulating non-payment in the electricity and natural gas retail markets and approved the Consolidated text on Electrical Arrears (TIMOE) both to make distributors more aware of their responsibilities and to expand the set of additional information which must be put at the disposal of the incoming supplier when end users switch contracts.

With Resolution 302/2016/R/com ARERA amended the provisions governing methods and timeframes relating to the guidelines for withdrawal from supply contracts for small end customers, making

provision for standardising switching times. With effect from 1 January 2017, when a supplier is switched, the outgoing supplier must receive the withdrawal notice from the incoming supplier within the 10th of the month previous to the change of supplier. Withdrawal regulations were afterwards amended with Resolution 783/2017/R/com in order to allow the process to be managed at centralised level exclusively through the SII Integrated Information System, starting from the contracts entered into from 15 February 2018 for electricity and as from 1 November 2018 for gas.

Indemnity system

ARERA approved an indemnity system which is to remain in effect until SII becomes fully operative, particularly with regard to transfer and switching, at the same time simplifying the procedures laid down in the transitional regulations. While the scope of application for the electricity sector remains unvaried (customers connected in low tension), the application of the regulations will also be extended to the natural gas sector (domestic end users, residential blocks with an annual consumption of not higher than 200,000 Smc and blocks for different uses with an annual consumption of not higher than 50,000 Smc). The date of effective entry into force of the provisions laid down for natural gas will be set in a subsequent measure.

REMIT

As indicated in Resolution 86/2015/E/com, ARERA has developed the Italian registry, with which the market operators subject to REMIT have been required to register.

2017 Competition Law

The annual market and competition law no. 127 of 4 August 2017 was published in Italian Official Gazette no. 189 on 29 August. The aims of this law are to encourage the growth of competition and provide protection for consumers, also in the application of the principles of EU law on free movements, competition and opening of markets. The main contents of the 2017 law, which will be referred to in the next implementing decrees to be issued by the Ministry of Economic Development and in the orders to be issued by ARERA, are:

- ◆ the end of the *regime di tutela*, a protected consumer regime for gas and power as from 1 July 2019;
- ◆ the obligation on all suppliers to prepare at least one fixed and one variable price offer for domestic and non-domestic utilities in low tension and for gas utilities with an annual consumption not higher than 200,000 Smc;
- ◆ the *Acquirente Unico* – Single Buyer – is to set up a portal for the publication of the offers to domestic gas and power customers and to companies connected in low tension and with an annual consumption not higher than 200,000 Smc;
- ◆ the creation of a list of approved entities for the sale of electricity.

With Resolution 762/2017/I/eel, the Authority has sent the Ministry of Economic Development its proposal regarding the criteria, requisites and procedures for operators' inclusion in the List of Sellers of Electricity (EVE), which will be a necessary condition for carrying out the sale of electricity to end users. The requisites for eligibility are divided into three macro categories: Integrity Requirements, Financial Requirements and Technical Requirements.

At present the Ministry of Economic Development has not yet published the decree providing for the list.

2018 Budget Law

On 27 December 2017 the 2018 Budget Law was approved, which lays down some provisions that impact on the energy sector. In detail, the innovations are:

- ◆ the introduction of provisions which seek to counter the problem of massive adjustments in electricity bills (Entry into force for electricity on 1 March 2018 and for gas on 1 January 2019);
- ◆ the institution of a tax on digital transactions (the web tax) amounting to 3% of the value, net of VAT, of each services transaction carried out electronically (Entry into force on 1 January 2019);
- ◆ GSE, the Italian Electricity Operator, will reduce the incentive payment to renewable energy producing plants down to a percentage of between 20% and 80% if they are found to have committed infringements;
- ◆ the confirmation of the TV licence fees at Euro 90 p.a., since no new provisions have been laid down in this regard.

Massive adjustments in electricity bills and short time bar

In order to counter the phenomenon of massive adjustments in electricity bills, the Budget Law introduced the right to request that payments for electricity be subject to a two-year time bar in electricity and gas supply contracts, both between the seller and the end user (domestic and low tension for other uses) and between the seller and the distributor. Detailed regulations for the power sector, which may be amended in the future when the regulations for the gas sector are decided upon, were laid down in Resolution 97/2018/R/com.

Electricity

General system cost reform

With Resolution 481/2017/R/eel the Regulator has framed a new tariff structure for general costs in the electricity supply system, applicable from 1 January 2018 to both domestic and non-domestic customers. The new structure is composed of two groups: "general costs of supporting renewable energy and cogeneration" (Asos) and "remaining general costs" (Arim).

The subsequent Resolution 867/2017/R/eel postponed the deadline to 1 January 2019 for the completion of the reform relating to the tariff components covering general costs in the electricity supply system, applicable to domestic customers, provided for in Resolution 582/15. Specifically, the Regulator requires the costs to continue to be differentiated between resident and non-resident domestic customers, diversified in their turn into two bands of annual consumption upon an offtake of 1,800 kWh.

Resolution 921/2017/R/eel has introduced measures to implement the new mechanism for concessions to energy-intensive companies set out in the Ministry of Economic Development's Decree of 21 December 2018, in force from 1 January 2018. In detail, different Asos component rates are to be applied to customers not receiving tariff concessions and to energy-intensive customers according to the type of tariff concession calculated on the basis of the electro-intensity index based on GPV.

Dispatching – Imbalance

With Resolution 393/2015/R/eel, the Authority has started a process to reform the dispatching service.

As a result of the Lombardy Region TAR's judgment No. 1648 of 24 June 2014 and the Council of State's judgments 1532/2015 and 2457/2016, which seek to restrict improper gains by dispatching users who exploit certain anomalies in the process of calculation of imbalance prices, Resolution 333/2016/R/eel of 24 June 2016 laid down the rules to apply in order to measure effective imbalances during the period from July 2012 to September 2014, setting out mechanisms which re-establish the regulations set aside by the abovementioned judgments of the Lombardy Region TAR and of the Council of State.

With Resolution 342/2016/R/eel the Authority has put procedures in place for the timely adoption of prescriptive measures and for the assessment of potential abuses in the wholesale electricity market pursuant to the REMIT. With Resolution 177/2017/E/eel, ARERA has postponed the publication of the names of the dispatching users involved until all the prescriptive measures and all the sanctions procedures deriving from these measures have been completed.

Pending the organic reform indicated above, with Resolution 444/2016/R/eel, ARERA has arranged a temporary solution for the valuation of actual imbalances within electrical dispatching, introducing, with effect from 1 August 2016, a +/- 15% band for the binding programme as amended and corrected in relation to the points on dispatching for consumption units and non-authorised production units other than significant units powered by non-programmable renewable sources. A single price (marginal price) will be applied to imbalances that fall within this band, and a dual price based on average prices will be applied to those outside the band.

With Resolution 800/2016/R/eel, the Authority has finally introduced additional provisions for the valuation of the actual imbalances for 2017, supplementing and modifying resolution 444/2016 in relation to the transitional regime.

Also regarding this issue, ARERA published Resolution 419/2017/R/eel, which, in replacing Resolutions 444/16 and 800/16, laid down transitional rules for measuring effective imbalances pending the formulation of rules based on nodal prices. This resolution introduces a macrozone non-arbitrage fee with effect from 1 July 2017, and the methods of calculation of the aggregate zonal imbalance are modified with effect from 1 September 2017. From this date the single pricing mechanism for measuring the effective imbalances of all ineligible units is to be reinstated.

Finally, with Resolution 300/2017/R/eel, ARERA required the Dispatching Service Market to open up to consumption units and their aggregates (virtual eligible consumption units - *UVAC*) and not yet eligible production units (*UVAP*) by means of pilot projects, started from 1 July 2017, whose purpose will be to gather the necessary information for an organic dispatching reform.

Network code for electric power transmission service

With Resolution 268/2015/R/eel the Authority has established a Network code for the electric power transmission service (hereinafter "Network Code"), to regulate the relations between electric power distributors and transmission service users.

This Resolution provided for the following measures to become effective from 1 January 2016:

- ◆ provisions on the contractual guarantees to be provided to distributing companies, and their sizing, for the purposes of the conclusion of the contract of transmission of distribution and the corresponding criteria for their management;
- ◆ provisions on invoicing timing and due dates for each type of distribution invoice, extending the terms of payment with respect to the current ones.

With Resolution 609/2015/R/EEL, the Authority has reformed the Network Code, introducing elements of greater flexibility for users of the transmission service in terms of guarantees to be provided, the main ones of which are:

- ◆ the removal of the rating requirement for guarantor banks to which the User may refer for the release of the guarantee;
- ◆ the ability, since 1 January 2016, to use the rating opinion as the accepted method of collateral, not subject, in a first transitional phase, to punctuality of payments.

By judgments nos. 237, 238, 243 and 244/2017, the Lombardy Region TAR ruled on the appeals submitted by some transmission service users relating to a number of alleged unlawful issues of the network Code, cancelling ARERA's Resolution 268/2015/R/EEL insofar as it provides for the users' obligation to provide guarantees to also cover general system costs. These judgments were confirmed by the Council of State's Orders nos. 1869, 2772, 2775, 2778 of 2017. With Resolution 109/2017/R/eel, the Authority started proceedings for the execution of the Lombardy region TAR's judgments. The completion is expected on 31 December 2017.

Similar Protection

With Resolution 369/2016/R/eel, ARERA has established the instrument of Similar Protection, a tool which accompanies customers towards exiting from the Higher Protection regime, as defined by the Competition Law, by offering them the possibility of entering into similar to free market contracts. Through Similar Protection, by signing the contract online, including via facilitators (i.e. consumer associations), customers with Higher Protection may conclude Similar Protection contracts with a maximum duration of 12 months. Customers will benefit from a one-time bonus made available by Suppliers covered by Similar Protection, selected by a Single Buyer on the basis of a series of requirements introduced by Resolution 369/2016.

With Resolution 541/2016/R/eel, ARERA approved the regulation for the identification of suppliers and the monitoring of Similar Protection by Single Buyers. The Similar Protection service has been extended until 30 June 2018. With Resolution 689/2016/E/eel, the Authority has integrated the Similar Protection guidelines in relation to the activities of Facilitators.

PLACET offers

With Resolution 555/2017/R/com, the Authority approved the rules for PLACET offers (free market offers on conditions equivalent to protection regime terms) in order to put small-sized end users in a position to understand the changes and overcome the asymmetry in information.

These offers, which all suppliers must include in their menu of commercial offers starting from 1 January 2018, have general conditions of supply set by the Authority, except for financial terms, which are freely agreed by the parties, although based on a preset structure of fees. PLACET offers shall be limited to the supply of the commodity only (without providing for additional services, nor dual fuel-type offers) and shall apply to end customers in low tension for the electricity sector, as well as to the holders of Points of Redelivery (*PDR*) with annual consumption lower than 200,000 Smc.

With Resolution 848/2017/R/com, ARERA postponed the entry into force of PLACET offers to 1 March 2018. Therefore, from this date, suppliers upload PLACET offers on the Offer Portal set up by the Authority.

Gas Natural

QVD component updating

With Resolution 916/2017/R/gas, the Authority updated the value of the variable retail quota (QVD) component as from 1 January 2018. The amount of the fixed retail quota was slightly raised while the amount of the variable quota remained the same as in 2017.

	Component	Year 2017	Year 2017
Domestic user	c€/PdR/year	59.65	60.01
	c€/Smc	0.7946	0.7946
Residential blocks with consumption < 200,000 Smc	c€/PdR/year	78.35	78.82
		0.583	0.583

Gas Balancing

With Resolution 312/2016/R/gas, the Authority approves the Consolidated Text of Gas Balancing (TIBEG) transposing European Regulation 312/2014, with effect from 1 October 2016. In order to put the new balancing regime into full effect from 1 April 2017, ARERA approved TICORG, a consolidated law which regulates the management of physical natural gas markets, adding to it some provisions regarding the locational product market (*MPL*) and the market created for trading stored gas (*MGS*).

Gas settlement

With Resolution 670/2017/R/gas, ARERA issued instructions regarding the conduct of adjustment sessions referring back to 2013 and until the entry into force of the new gas settlement regulations (1 January 2020). With order 782/2017/R/gas, the Authority adopted specific procedures for calculating the gas volume delta including the amount fed in and taken off at the Point of Redelivery in the transmission network interconnected with distribution networks or city gates; the annual price, which up to now has been charged to the user in full, is now shared with the Balancing User at the same city gate in proportion to the offtakes allocated during the year.

On the basis of the outcome of the first adjustment session, expected to take place in 2018, ARERA will consider the advisability of instituting procedures for covering any settlement balances payable by users which are not recoverable.

UK legislative and regulatory framework

During 2017 the year was dominated by the impact of the investigations into the retail market conducted by the UK Competition and Markets Authority (CMA), which ended in 2016. Electricity regulator OFGEM's (Office of Gas and Electricity Markets) implementation of the remedies to reform the competitive market on behalf of the CMA created an energy market which is challenging from the legislative point of view.

The CMA brought in measures to encourage competition by modifying the information provided for customers who use price comparison websites (PCW), which are no longer obliged to show the wide range of tariffs on the market automatically when a consumer searches for the lowest rate, but only do so at the consumer's request. This change has affected the commercial agreements with the PCWs. The existing agreements had to be changed and the changes included our general approach, our relationship and the products we put at their disposal.

The CMA asked Xoserve, which runs the central UK gas settlement system, to complete an IT update project called NEXUS. The development of this project had been postponed, which restrained the growth of the gas retail market. The CMA then asked for the project to be completed immediately, which made it necessary for GNE to modify its data management system in order to conform to the new standards.

In 2017 GNE topped the threshold of fifty thousand customers, which triggered GNE's compliance obligation to offer prepayment meters (PPM) to end customers, making an adjustment to its commercial offers and systems necessary.

Finally, on 1 April 2017 there was a change in the UK balancing and settlement code (BSC) which came into effect in June, requiring regulation of measurements on a 30-minute basis for certain classes of meters. GNE is working on the necessary adjustments to its systems for the industrial and commercial retail market segments (profile 5 to 8 classes), which, however, represent a minority section of the market.

TRENDS IN THE ITALIAN ENERGY MARKET

Electricity market

Electricity demand in Italy in 2017 totalled 320.4 TWh (Terna data), an increase of 2.0% compared to the same period of 2016.

TWh	2017	2016	Change %
Net production:	285.1	279.7	3.4%
External suppliers	42.8	43.1	(0.46%)
Sold to foreign customers	(5.1)	(6.1)	(16.4%)
Intended for pumping systems	(2.4)	(2.4)	0%
Italy Total	320.4	314.2	2.0%

Source: Terna data.

In the 12 months of 2017, approximately 16.9% of net production of energy requirements were covered by wind, PV and geothermal renewable sources, showing a slight increase compared to the previous year. Overall hydroelectric production decreased, while thermal power production increased. These phenomena are due to the different climatic conditions experienced in 2017 compared to the previous year.

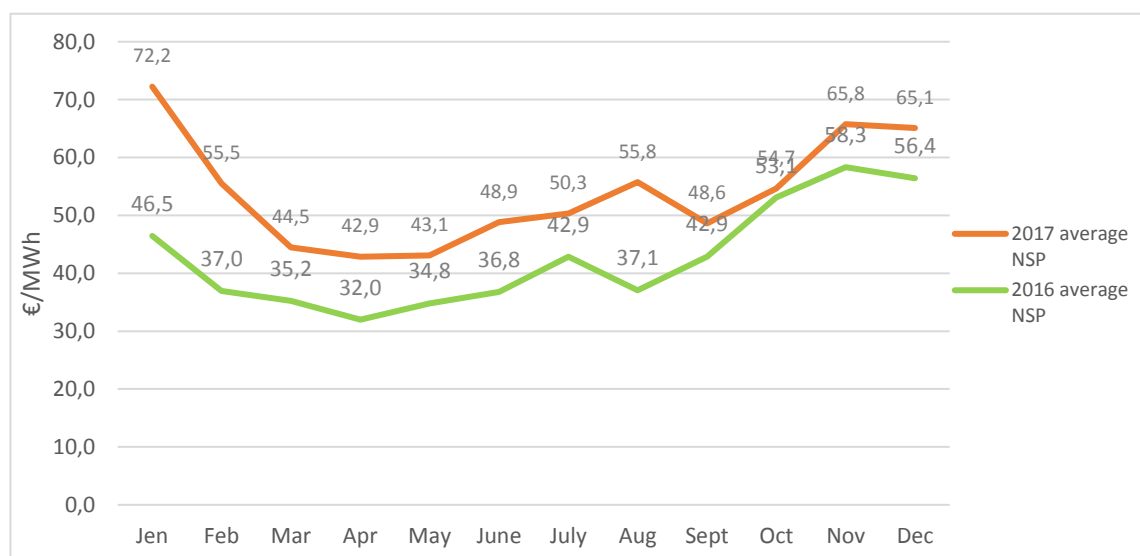
Net Italian production by source type:

%	2017	2016
Net renewable production (wind, photovoltaic, geothermal)	16.9%	16.2%
Net hydroelectric production	13.1%	15.6%
Net thermal production	70.0%	68.2%

Fonte: dati Terna.

Borsa Italiana's average hourly price for energy (IPEX1/NSP - National Single Price) for 2017 amounted to 54 €/MWh, up (26%) compared to the same period of 2016 (43 €/MWh). During the year the price was constantly higher than that recorded during 2016, with particularly significant peaks at the beginning and at the end of the year.

The following graph shows the monthly figures:



Source: GME

The National Single Price is still higher on average than the French (PNX) and German (EEX PHELIX/) stock exchange prices, although the spread continues to decline due to the gradual alignment of the NSP with foreign stocks:

- the average price of the French stock market (PNX) was 45.4 €/MWh in 2017;
- the price of the German stock exchange (EEX PHELIX/) was 34.6 €/MWh in 2017.

The price differential between the stock exchanges is due to the different power generation facilities, which in Italy have higher production costs, hence the prevalence of import trade.

The Natural Gas Market

Gas drawn (billion m3)	2017	2016	% change
Domestic production	5.538	5.785	(4.3%)
Imports	69.650	65.284	6.7%
Exports	(0.273)	(0.212)	28.3%
Change in stocks	0.235	0.058	308.6%
Total demand	75.151	70.914	6.0%

Source: 2017 figures and 2018 preliminary figures Snam Rete Gas, Ministry Economic Development

During 2017 the natural gas demand in Italy recorded an increase of about 6% compared to the same period in the previous year, coming to about 75.1 billion cubic meters.

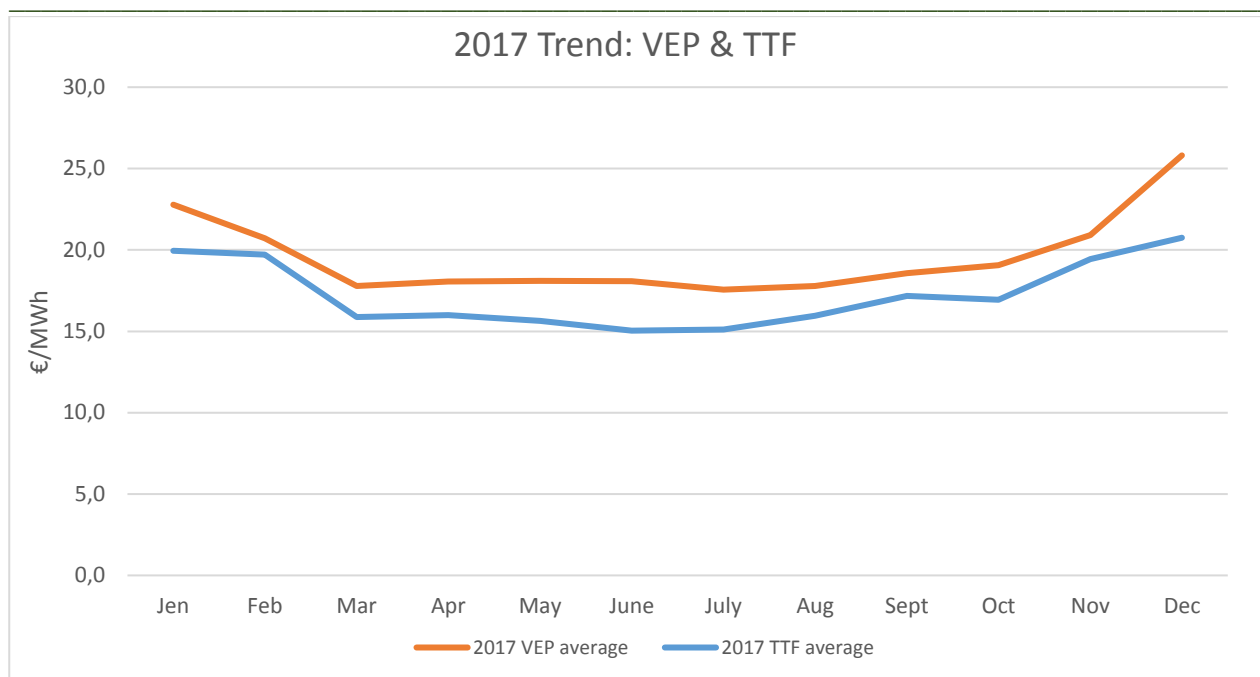
In 2017, in terms of supply sources, there was, by comparison to 2016:

- ◆ a slight drop in national production (-247 million cubic meters; -4.3%);
- ◆ an increase in gas imports (+4.3 billion cubic meters; +6.7%);
- ◆ increased stored gas compared to the previous year.

In recording an opposite trend compared to 2016, which saw decreasing spot prices compared to 2015, 2017 closed with average spot prices which showed an increase in the main European hubs. In particular, the Dutch TTF (Title Transfer Facility) (gas supply cost reference in wholesale markets for the higher protection rate) recorded an average value of 17.30 euro/MWh, an increase of approximately 24% compared to 2016.

The gas spot price in Italy (shown in the following chart, which uses the Virtual Exchange Point (VEP) as a reference) showed an average value that came to 19.6 euro/MWh in 2017 (+23.6% compared to the same period in 2016).

Early 2017 was marked by a rigid climate which caused an increase in demand for gas for heating plants and a fall in the export of electricity from France, which led to greater recourse to combined cycle production. Both factors pushed prices up to high levels. After the summer and a fall in prices, towards the end of the year rising oil prices and the usual seasonal increase were joined by an exceptionally cold December and restrictions on imports owing to maintenance works on the TENP pipeline which raised prices and also increased the VEP to TTF spread.



OPERATING PERFORMANCE AND SIGNIFICANT EVENTS

Electricity and gas sale to end users

The core business of the company and the Group in general consists in the sale of electric power and gas.

In 2017 there was a steep rise in volumes driven on one hand by an increase in the big customer portfolio and on the other hand by a greater presence in medium and low consumption market segments but higher unit margins. In accordance with the company growth plan in the latter sector, November 2017 saw the completion of the acquisition from Energrid S.p.A. and from Tradeinv Gas & Energy S.p.A. of the business units dedicated to the sale of electricity and gas with a total portfolio of more than 150,000 points.

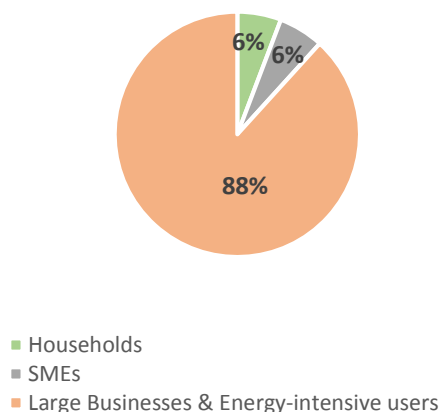
As regards total quantities, there was a sharp increase in the volumes sold, up by 44% in the sale of electricity and 18% in the sale of the gas.

Power Volumes in TWh	2017	2016	% change
Sales to end users	8.7	4.7	84%
Wholesale sales	0.9	1.9	54%
Total	9.6	6.7	44%

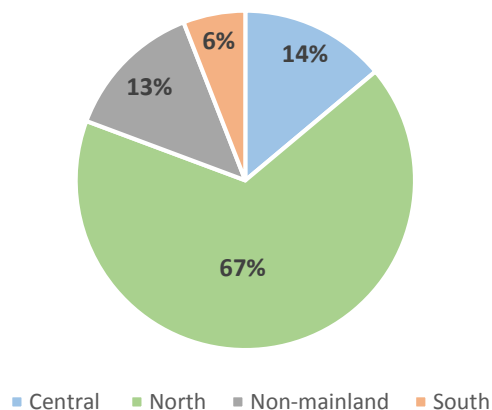
Gas Volumes in Mln smc	2017	2016	% change
Sales to end users	163.3	127.7	28%
Wholesale sales	36.6	41.2	11%
Total	199.9	168.9	18%

The breakdown of power and gas turnover by customer type and geographical area is presented below (Italian market):

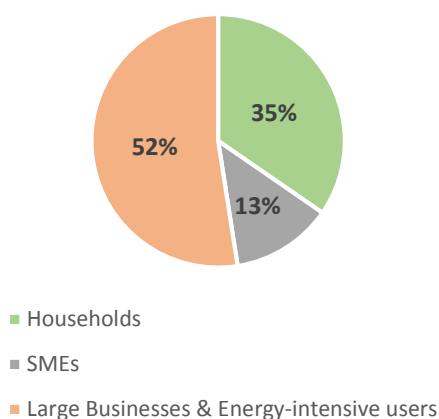
Power turnover by customer type



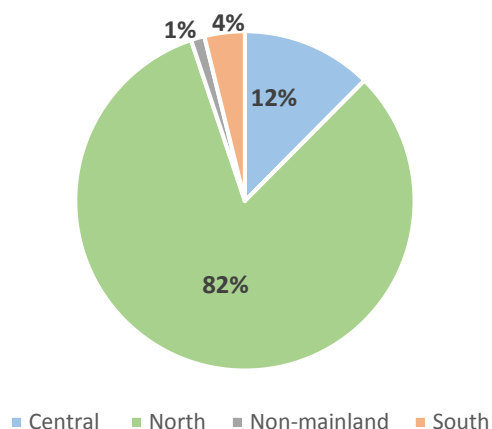
Power turnover by geographical area



Gas turnover by customer type



Gas turnover by geographical area



As regards the UK market in early 2017, after the testing phase, work commenced on the activities to sell energy and gas to the retail market through the company Green Network Energy, with positive results: at the end of December, in fact, the company provided about 166,000 power & gas sites, with an acquisition trend increasing on an ongoing basis.

Renewables

The Group, through its direct and indirect subsidiaries, is secondarily active in the sector of electric power production from renewable sources, mainly wind, photovoltaic and biomass.

With reference to the photovoltaic sector, through the companies Solcap Green S.r.l. in Italy and Spectrum Tech S.r.l. in Romania, in 2017 electric power production totalled 13.75 GWh compared to 13.0 GWh, in 2016, thanks to better weather conditions and to an improved operational performance.

As regards the biomass and biogas sector, through the companies Rena Energia S.r.l. and Biogas

Energy S.r.l., electric power production totalled 13.4 GWh during 2017, compared to 10.1 GWh in 2016, thanks to the gradual restarting of Biogas Energy plant with a significant increase in operating results.

In the hydroelectric sector, Green Hydro 2 S.r.l. was sold on 1 August 2017. During the year work continued to complete the plant belonging to the company Green Hydro 1 S.r.l., which was sold on 12 January 2018.

In the wind sector, the Green Wind 2 S.r.l. plant located in Sant'Agata di Puglia, Foggia, recorded an electricity production of 2.61 GWh, up by about 9% compared to the previous year with a positive impact on operating profitability. In July 2017 Green Wind 1 S.r.l. was put into liquidation following the failure to obtain the authorisations required to construct a wind farm in Puglia.

In the first months of the year, lastly, the purchases of electric power from independent producers (FER and/or cogeneration plants) continued, with the aim of increasing the share of energy bought directly from third parties, as well as the search for synergies on efficiency initiatives and the improvement of specific competencies, with a view to expanding the dispatching market also to renewables plants and the active participation of the demand to the energy market.

Non-recurring operations

Effective from 21 and 22 November 2017 Green Network S.p.A. acquired the business units dedicated to the sale of electricity and gas from Energrid S.p.A. and Tradeinv Gas & Energy S.p.A.. A portion of the business unit sold by Energrid S.p.A. was acquired directly through the newco Energrid S.r.l., while most of the business was acquired directly by Green Network S.p.A., together with the business unit coming from Tradeinv. With this acquisition not only did the Group add about 150,000 new users to its customer base but it also gained a strong commercial structure well established in the northern-central part of Italy with promising growth potential. Finally, 20 April 2018 saw the completion of the acquisition of the business unit of Energia e Territorio S.p.A., which provides IT support to the business unit of Energrid S.p.A. that was acquired in November.

In continuing work to streamline its corporate structure, on 24 October 2017 Green Network S.p.A. merged its subsidiary by incorporation Sacri Real Estate S.p.A., which owns some properties located in Lazio and Umbria.

Finally, again with a view to streamlining its investment portfolio, the sale of the minority interest held in Converge S.r.l. was completed on 27 March 2018. The sale took place at the book value of the investment.

GREEN NETWORK SPA ECONOMIC AND FINANCIAL RESULTS AT 31 DECEMBER 2017

In EUR '000	2017	2016	Change	% change
Revenue from sales*	949,123	693,322	255,801	36.9%
Raw material costs	(882,229)	(615,336)	(266,892)	43.4%
First margin	66,894	77,986	(11,091)	-14%

Direct costs	(17,040)	(22,030)	4,990	-22.7%
Indirect costs	(26,087)	(23,644)	(2,443)	10.3%
EBITDA	23,767	32,312	(8,544)	-26%
Depreciation	(2,318)	(766)	(1,552)	202.5%
Provisions and write-downs	(7,060)	(8,491)	1,430	-16.8%
EBIT	14,389	23,055	(8,666)	-38%
Extraordinary expenses	56	(4,327)	4,382	-101.3%
Financial operations **	(6,205)	(5,495)	(710)	12.9%
Profit (loss) before tax	8,240	13,234	(4,994)	-38%
Taxation	(2,340)	(7,193)	4,852	-67.5%
Net Profit (Loss)	5,899	6,041	(142)	-2.3%

* The sales revenue figure does not include the penalties on fees allocated to direct costs.

** Indirect costs do not include costs relating to factoring commissions, charges on sureties and bank charges totalling EUR 3.9 million reclassified to financial management.

The economic results include the effects of the acquisition of Energrid and Tradeinv for the period from 20 November to 31 December 2017.

Sales revenues came to EUR 949 million, up by 37% compared to the previous year.

The table below reports the effects of the acquisitions:

Revenues	Euro M	%
Current business	893	94%
Acquisition of Energrid	46	5%
Acquisition of Tradeinv	11	1%
Total	949	

Organic growth is driven by the development of the industrial sector, which expands critical mass and thus allows economies of scale in process management.

The retail customer base was weeded: during the last four months of the year growth focused on web and innovative channels. The traditional channels underwent an in-depth review, removing agencies which were non-performing in both quantitative and qualitative terms. This has given the Company the basis for strong growth in 2018.

The table below reports the most significant quantitative data:

Revenues by Energy segment (in EUR million)	2017	2016
Large Business	574	266
SMEs	39	42
Domestic	38	89
Other Revenues	213	191
Total	863	589

Revenues by Gas segment (in EUR million)	2017	2016
Large Business	34	20
SMEs	8	6
Domestic	23	44
Other Revenues	21	34
Total	87	104

Other revenues are the sale of electricity and gas other than to end customers.

The strong and unexpected rise in the prices of commodities in the first quarter of the year affected Gross profit in the year under consideration, which came to EUR 67 million, down by 14.2% compared to the previous year.

The contribution of the acquired business units to gross profit was poor because they had not yet had time to get running in the consolidation period and very small owing to some suboptimisations (removed in 2018) in the revenue/cost structure.

Gross Profit	In EUR million	%
Current business	64.3	96%
Acquisitions	2.6	4%
Total	66.9	

Great attention was paid to optimising direct costs, summarised in the table below:

Direct costs (in EUR million)	2017	2016
Fees	8.8	10.6
Advertising costs	3.1	3.8
Customer care costs	2.3	2.5
Postal / Toll-free number costs	1.3	3.3
Debt Collection costs	1.6	1.8
Total	17.0	22.0

The saving was obtained by keeping up and, where possible, raising service quality. The figure also includes the costs of the business units acquired; the benefits from the synergies obtained as a result of these transactions will start to be perceived in 2018.

Below are the main indirect cost expenditure:

Indirect costs (in EUR million)	2017	2016
Personnel	12.1	11.5
Leases	2.0	1.0
Services and Consultancy advice	9.8	9.4
Operating costs	1.7	1.8

Non-recurring costs	0.5	0.0
Total	26.1	23.6

A development which had a substantial impact on personnel costs was the increase in the staff establishment as a result of the acquisition of business units, which will be progressively optimised from 2018 onwards. Non-recurring costs include those of the due diligence on Gas Natural, after which the company decided not to submit a binding offer to buy.

The total effect gives rise to a decrease of 26.4% in EBITDA compared to 2016, coming to EUR 23.8 million.

Provisions and write-downs were due, in the amount of EUR 6 million, to prudent provisions for bad debt, down compared to the previous year. Debt recovery has made appreciable progress both in terms of incoming disputes due to tighter customer selection and the process for the recovery of overdue debts, which has further quickened. Particularly valuable in the pre-supply customer selection process is the use of the Integrated Information System together with algorithms developed with the assistance of leading market operators in the commercial information sector. The overdue debt process has been reviewed and optimised and the acquired business units have been made to adopt best practice immediately. In view of the provisions inherited from these businesses, the provision for bad debts now amounts to about EUR 30 million, net of the weeding of the receivables portfolio carried out in 2017.

Results from financial operations amounted to EUR -6.2 million, 12.9% more than in 2016 but much smaller in proportion to the total amount of invoices issued, whose growth entailed an inevitable increase in the working capital to be financed. The related costs were reduced after the terms and conditions had been re-negotiated.

Non-recurring items include a write-down of EUR 1.0 million of subsidiary Green Network Holding Rinnovabili, after the impairment test on its share in Spectrum Tech. This write-down was necessary owing to a change in the rules on incentive payments at the end of March 2017 by the Romanian government, which postponed the collection of a part of the annual incentive tariff until 2025.

Profit before tax came to EUR 8.2 million (-38%) in 2017.

The tax burden was lower this year owing to the fall in the IRES (Corporate Income) Tax rate, less non-deductible costs than in 2016 and corrections in the previous years' tax liability estimates. This allowed a net profit of EUR 5.9 million to be recorded (-2.3% compared to the previous year).

Net financial position and financial debt

In EUR million	31.12.2017	31.12.2016	Change
Cash and cash equivalents	41.3	27.8	13.5
Current payables	(114.3)	(49.0)	(65.2)
Non-current payables	(6.3)	(5.0)	(1.3)
Net financial position	(79.3)	(26.2)	(53.1)

Unlike the income statement, the balance sheet includes the effects of the acquisitions in full, with an impact of about EUR 27 million on the net financial position.

Furthermore, after the merger of Sacri Real estate, Green Network S.p.A. has directly taken over its long-term debt for EUR 2.2 million.

To this was added the self-liquidating loan to finance organic growth, as well as the loan disbursed to support the development of affiliate Green Network Energy.

Cash and cash equivalents consist of the item “Cash on hand and at banks” for EUR 27.1 million, “Bonds and certificates” for EUR 4 million and receivables from banks and factoring companies for EUR 10.3 million.

The net financial position does not consider the debt arising from the reverse factoring transaction, equal to EUR 31.5 million, with one of the main suppliers working for the Group.

Shareholders' equity

<u>In EUR million</u>	<u>31.12.2017</u>	<u>31.12.2016</u>
Share capital	15.6	15.6
Other reserves	10.6	5.0
Net profit (loss) for the period	5.9	6.0
Minority interests	0.0	0.0
Total Shareholders' equity	32.1	26.7

The shareholders' equity was strengthened, coming to EUR 32.1 million (+24%). The NFP/Equity was 2.5 times.

GROUP ECONOMIC AND FINANCIAL RESULTS AT 31 DECEMBER 2017

In EUR '000	2017	2016	Change	% change
Revenue from sales	1,003,339	699,894	303,445	43.4%
Raw material costs	(922,164)	(616,670)	(305,494)	49.5%
First margin	81,175	83,224	(2,049)	(2.5%)
Direct costs	(20,526)	(23,710)	3,183	(13.4%)
Indirect costs	(37,804)	(30,788)	(7,016)	22.8%
Retail business UK	22,845	28,727	(5,882)	(20.5%)
EBITDA	(4,975)	(3,909)	(1,067)	27.3%
Depreciation	(6,337)	(7,324)	987	(13.5%)
Provisions and write-downs	11,533	17,494	(5,961)	(34.1%)
EBIT	56	(4,328)	4,383	(101.3%)
Extraordinary expenses	(8,078)	(7,587)	(492)	6.5%
Financial operations**	3,510	5,580	(2,070)	(37.1%)
Profit (loss) before tax	(1,262)	(5,393)	4,132	(76.6%)
Taxation	2,248	186	2,062	1,107.2%

* The sales revenue figure does not include the penalties on fees allocated to direct costs.

** Indirect costs do not include costs relating to factoring commissions, charges on sureties and bank charges totalling EUR 3.9 million reclassified to financial management.

The economic results include the effects of the acquisition of Energrid and Tradeinv for the period from 20 November to 31 December 2017.

The table below reports the performance by segment:

Revenues (in EUR million)	2017	2016
Green Network Spa	893	701
Acquisition of Energrid/Tradeinv	57	0
Green Network UK PLC	33	33
Green Network Energy Limited	39	0
Renewables	7	7
Other companies/eliminations	(24)	(42)
Total	1,003	700

Green Network S.p.A.'s growth is driven by the development of the industrial sector, which expands critical mass and thus allows economies of scale in process management.

Revenues were boosted not only by the aforesaid acquisitions, but by sales to consumers in the UK through subsidiary Green network Energy Limited, which obtained about 235,000 users (April 2018) in a year, starting from scratch.

Gross profit for the year came to EUR 81.2 million, in line with the previous year.

<u>Gross Profit (in EUR million)</u>	2017	2016
Green Network Spa	64.3	78.0
Acquisition of Energrid/Tradeinv	2.6	0.0
Green Network UK PLC	6.8	-0.4
Green Network Energy Limited	2.0	0.0
Renewables	5.8	5.6
Other companies/eliminations	(0.2)	0.0
Total	81.2	83.2

The UK PLC's business contribution to gross profit was equal to EUR 6.8 million, a distinct progress over the previous year.

Finally, a good performance was recorded in the segment of renewables, which increased from EUR 5.6 to EUR 5.8 million. The last plant that was being revamped (Biogas Energy) entered into full operation this year too. Particularly important was the performance of the wind farm, which produced the highest amount of energy since it was put into service. The results of solar and biomass energy were better than in the previous year too, following the previous improvements in their operational performance.

The table below shows direct costs in the various segments:

<u>Direct costs (in EUR million)</u>	2017	2016
Green Network Spa	17.0	22.0
Green Network UK PLC	0.0	0.0
Green Network Energy Limited	1.9	0.2
Renewables	1.6	1.5
Total	20.5	23.7

Below are indirect costs by segment:

<u>Indirect costs (in EUR million)</u>	2017	2016
Green Network Spa	26.1	23.6
Green Network UK PLC	4.8	4.1
Green Network Energy Limited	6.9	2.9
Renewables	0.0	0.0
Other companies/eliminations	0.0	0.1
Total	37.8	30.8

In addition to these effects, total EBIDTA suffered from the costs of the launching of selling electricity and gas to end customers in the UK market, with an effect of EUR 3.9 million. Excluding non-recurring direct costs, this indicator is not substantially different from the previous year.

Results from financial operations came to EUR -8 million, up by 6.5% compared to 2016, with an increase on Green Network S.p.A., which was partly offset by an improvement in the segment of Renewables. The rise, due to the sharp increase in commercial activities, was largely absorbed by better contractual terms.

Profit before tax came to EUR 3.5 million (-37.1%) in line with 2016, net of the impact of Green Network Energy

The net result of EUR 2.2 million showed a considerable increase compared to 31 December 2016. The tax burden in fact was lower this year owing to the fall in the tax rate in Italy, less non-deductible costs than in 2016 and tax credits relating to previous years.

Net financial position and financial debt

<u>In EUR million</u>	31.12.2017	31.12.2016	Variazione
Cash and cash equivalents	49.5	29.4	20.1
Current payables	(118.0)	(52.2)	(65.9)
Non-current payables	(19.9)	(22.3)	2.4
Net financial position	(88.4)	(45.1)	(43.3)

The net financial position at 31 December 2017 came to EUR -88.4 million, showing an increase in cash and cash equivalents and short-term debt, following the acquisition of business units.

This position does not consider the debt arising from the reverse factoring transaction, equal to EUR 31.5 million, with one of the main suppliers working for the Group.

Shareholders' equity

<u>In EUR million</u>	31.12.2017	31.12.2016
Share capital	15.6	15.6
Other reserves	(1.5)	(0.7)
Net profit (loss) for the period	2.2	0.1
Minority interests	0.6	0.2
Total shareholders' equity	16.9	15.2

Shareholders' equity showed an increase of 11% from EUR 15.2 million to EUR 16.9 million in 2017.

OTHER INFORMATION

Research and development activities

Research and development activities were carried out on an ongoing basis to solve issues related to electric power and gas supply and investment in energy generation from renewable sources through special purpose vehicles. However, no development cost was capitalised during the year under review since the requirements were not met.

Treasury shares

There are no treasury shares in the portfolio.

Information on personnel

At 31 December 2017, the Group had 292 staff members, compared to 205 in the previous year.

Information on the environment

As regards the protection of the environment, Group operations are performed in compliance with the regulations in force in the energy sector and it is believed that no liability will arise in this respect and no environmental damage will be caused.

Security policy document

The security policy document, pursuant to art. 6 of Italian Presidential Decree 318/99, was drafted in accordance with the legal terms.

Organisational model pursuant to Italian Legislative Decree 231/01

Following the introduction in the Italian legal system of Legislative Decree No. 231/2001, all companies are potentially subject to a new form of civil and criminal liability for offences committed by their directors and/or employees, unless said companies have previously adapted their organisational and internal control system in line with the principles set forth by said regulation.

In order to avoid being held liable in the aforementioned cases, the consolidating company adopted, in previous years, an appropriate organisational, management and control model (the "Organisational Model") which incorporates therein:

- ◆ the "Code of Ethics", understood as the autonomously-adopted instrument applicable to all stakeholders that enter into relations with the company, in order to express the principles of corporate ethics which the company has made its own and which it asks all Shareholders, Employees, Directors, Consultants and Partners to respect;
- ◆ the "Disciplinary Code" to be applied if breaches of said Code of Ethics are identified.

In addition, on the basis of Italian Legislative Decree 231/01, the company has appointed a special collegial body, the "Supervisory Body", composed of three qualified professionals, responsible for the monitoring and updating of said Organisational Model as well as for the application of the Code of Ethics, and the imposition of any penalties due to non-compliance.

The scope of application of the Organisational Model, therefore, consists of all areas relating to internal and external company processes and the organisational structure headed up by the company.

The Organisational Model also requires the subsidiaries of Green Network not expressly identified in the Model to fully implement the Code of Ethics and to adjust or create their own organisation, management and control model in compliance with the ethical principles and protocols defined.

ISO-9001 certification

In 2011, with the help of qualified professionals, the consolidating company received, from the certification body DNV Business Assurance, the certification of compliance with UNI-EN-ISO 9001:2008 standards for management systems, specific to the marketing of electricity and natural gas.

Data protection legislation

The company is taking all the measures necessary to comply with EU Regulation 2016/679, the General Data Protection Regulation (GDPR) on the protection of natural persons, as regards the processing and free movement of their personal data.

RISK FACTORS PURSUANT TO ART. 2428 OF THE ITALIAN CIVIL CODE

Owing to the sector in which the Group operates, it is exposed to market risk, to mitigate which the management has suitable monitoring tools.

For information on other risk factors to which the Group is exposed, including pursuant to Article 2428 of the Italian Civil Code, please refer to the relevant section of the explanatory notes to this annual financial report.

SIGNIFICANT EVENTS AFTER THE CLOSING OF THE FINANCIAL REPORT AND BUSINESS OUTLOOK

The company continues to pursue its strategy to grow sales of electricity and gas with strong emphasis on the micro-business and residential segments in order to improve the profitability of its customer portfolio, supporting commercial development activities through cross-selling with leading operators and online channels, increasing advertising investment and gradually reducing the agency channel.

Efforts are also continuing to increase the offering both in terms of the online channel and the “Similar Protection” segment in anticipation of the upcoming elimination of the Higher Protection service, which will substantially expand the open market.

Work successfully continued on the activities to sell energy and gas to the UK retail market, through Green Network Energy Ltd. with about 235,000 supply points in April 2018. The Group served more than 500,000 users as a whole in Italy and in the United Kingdom at the end of April.

Rome, 27 April 2018

Chairman of the Board of Directors

Piero Saulli

II – FINANCIAL STATEMENTS OF GREEN NETWORK S.P.A.

FINANCIAL STATEMENTS

Income Statement and statement of comprehensive income

	Notes	2017	2016
Revenues			
Revenues from sales and services	1	938,616,711	692,730,616
Other revenue and income	2	8,033,985	8,492,365
Total revenues		946,650,696	701,222,981
Costs			
Electricity and gas purchase	3	882,228,527	615,336,273
Costs for services and materials	4	27,925,944	42,509,860
Payroll and related costs	5	14,557,128	12,827,077
Amortisation/depreciation and impairment	6	9,378,409	9,256,756
Other operating costs	7	2,050,764	1,952,107
Total costs		936,140,772	681,882,073
EBIT		10,509,924	19,340,908
Financial income (expense) from financial instruments measured at fair value	8	12,399	(2,370,238)
Net profit (loss) from the sale of current and non-current operating assets	9	(8,717)	(116,956)
Financial income	10	2,496,319	3,140,611
Financial expense	11	(4,822,311)	(4,921,393)
Share of income/(expense) deriving from equity investments valued using the equity method	12	51,927	(1,839,372)
Pre-tax profit (loss)		8,239,541	13,233,561
Taxation	13	(2,340,358)	(7,192,535)
Net profit (loss) for the year		5,899,183	6,041,026

	2017	2016
Net profit (loss) for the year	5,899,183	6,041,026
Other components of comprehensive income		
Items that should not be reclassified to Profit (Loss) for the year		
Revaluations of property, plant and machinery and intangible fixed assets	0	0
Actuarial gains (losses) from defined benefit plans	5 (118,203)	(74,328)
Items that will or could then be reclassified to Profit (Loss) for the year		
Profit (losses) from redetermination of the value of financial assets available for sale	8 6,000	(38,026)
Fair value changes in cash flow hedges	3 1,945,784	3,655,817
Income taxes relating to OCI	(534,135)	(1,024,809)
Comprehensive profit/loss for the year	7,198,629	8,559,680

Statement of financial position

	Notes	31.12.2017	31.12.2016
Non-current assets			
Intangible fixed assets	14	22,629,646	697,042
Goodwill	15	26,302,025	0
Property, plant and machinery	16	3,816,026	3,529,557
Investment property	17	8,014,167	0
Equity investments	18	18,158,078	17,364,773
Receivables due from parent companies, subsidiaries, associates and joint ventures	19	19,674,586	27,575,776
Deferred tax assets	20	6,001,288	5,775,847
Tax credits	21	5,084,332	5050,138
Other non-current assets	22	9,179,861	617,881
Total		118,860,009	60,611,014
Current assets			
Inventories	23	1,801,933	321,617
Trade-related receivables	24	368,153,536	204,414,063
Receivables from parent companies, subsidiaries, associates and joint ventures	25	44,830,298	20,882,109
Loans to banks and other financial institutions	26	10,258,914	10,468,370
Tax credits	27	22,826,471	8,842,734
Derivatives	28	29,971,294	8,582,781
Financial assets available for sale	29	3,964,282	8,274,800
Other current assets	30	13,457,878	10,754,252
Cash and cash equivalents	31	27,071,599	9,071,201
Total		522,336,205	281,611,927
Non-current assets held for sale	32	2,259,055	312,888
Total assets		643,455,269	342,535,829
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	33	15,636,000	15,636,000
Other reserves	33	10,583,035	4,975,244
Net profit (loss) for the year	33	5,899,183	6,041,026
Total shareholders' equity		32,118,218	26,652,270
Non-current liabilities			
Long-term loans	34	6,288,796	4,977,343
Employee severance indemnity and other employee benefits	35	2,707,861	1,514,811
Provisions for risks and charges	36	13,267,435	4,406,233
Tax liabilities	37	905,833	1,800,199
Other non-current liabilities	38	9,489,588	5,981,856
Total		32,659,513	18,680,442
Current liabilities			
Short-term loans	39	145,801,388	49,037,171
Trade-related payables	40	368,883,816	201,082,154
Payables to parent companies, subsidiaries, associates and joint ventures	41	21,403,954	22,671,612
Tax payables	42	21,189,803	10,985,240
Derivatives	43	6,900,098	6,246,780
Other current liabilities	44	14,498,479	7,180,160
Total		578,677,538	297,203,117
Total shareholders' equity and liabilities		643,455,269	342,535,829

Statement of changes in shareholders' equity

	Share Capital	Legal reserve	Extraordinary reserve	Equity method valuation reserve	Profits (losses) carried forward	FTA reserve	Reserve for valuation of derivatives and contracts	Rounding reserve	Capital contributions	Retained earnings (accumulated losses)	AFS reserve	Actuarial gain reserve	Net profit (loss) for the year	Total
1 January 2016	15,636,000	1,061,050	2,678,150	6,297,596	(21,780,405)	16,387,195	(2,347,931)	(1)	13,394	0	(1,774,972)	(167,994)	(460,745)	15,541,338
Profit (loss) for the year	0	0	0	0	0	0	0	0	0	0	0	0	6,041,026	6,041,026
Other components of comprehensive income	0	0	0	0	0	0	2,602,210	0	0	0	(27,067)	(56,489)	0	2,518,655
Total components of comprehensive income	0	0	0	0	0	0	2,602,210	0	0	0	(27,067)	(56,489)	6,041,026	8,559,680
Dividends approved	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase of treasury shares, net of quota transferred	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total transactions with shareholders, recognised directly in Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other changes	0	66,986	1,272,734	(0)	(1,800,464)	0	676,674	4	0	0	1,834,255	40,319	460,745	2,551,252
Balance at 31 December 2016	15,636,000	1,128,036	3,950,884	6,297,596	(23,580,869)	16,387,195	930,953	3	13,394	0	32,216	(184,164)	6,041,026	26,652,270
1 January 2017	15,636,000	1,128,036	3,950,884	6,297,596	(23,580,869)	16,387,195	930,953	3	13,394	0	32,216	(184,164)	6,041,026	26,652,270
Profit (loss) for the year	0	0	0	0	0	0	0	0	0	0	0	0	5,899,183	5,899,183
Other components of comprehensive income	0	0	0	0	0	0	1,385,009	0	0	0	4,271	(89,834)	0	1,299,446
Total components of comprehensive income	0	0	0	0	0	0	1,385,009	0	0	0	4,271	(89,834)	5,899,183	7,198,629
Dividends approved	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase of treasury shares, net of quota transferred	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total transactions with shareholders, recognised directly in Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other changes	0	302,051	5,738,974	(1)	(1,435,556)	(297,121)	(0)	(2)	0	0	0	0	(6,041,026)	(1,732,681)
Balance at 31 December 2017	15,636,000	1,430,087	9,689,858	6,297,595	(25,016,425)	16,090,074	2,315,962	1	13,394	0	36,487	(273,998)	5,899,183	32,118,218

Cash flow statement

	Notes	2017	2016
Profit (loss) for the year		5,899,183	6,041,026
CASH FLOW STATEMENT OF OPERATING ACTIVITIES (A)			
Taxes for the year	13	2,340,358	7,192,535
Interest expense/(interest income)	10 - 11	2,322,014	1,785,883
Income from equity investments in other companies		(15,000)	0
Adjustments for non-monetary elements with a contra-entry in net working capital			
<i>Allocations to provisions</i>	5 - 6	<i>6,540,529</i>	<i>7,500,720</i>
<i>Depreciation/amortisation of fixed assets</i>	6	<i>2,317,919</i>	<i>766,220</i>
<i>Write-downs due to impairment</i>	6	<i>1,060,490</i>	<i>1,490,536</i>
<i>Other adjustments for non-monetary elements</i>	8 - 12	<i>(55,609)</i>	<i>1,839,237</i>
Cash flows from change in working capital			
- change in inventories	23	(1,480,316)	(321,617)
- change in trade and intercompany receivables	19 - 24 - 25	(190,801,099)	(11,117,938)
- change in trade and intercompany payables	40 - 41	166,248,025	(23,765,867)
- other changes in net working capital		(23,897,063)	17,000,708
Cash flows from other adjustments:			
<i>Interest income and other financial income received</i>	10	<i>2,515,297</i>	<i>3,135,510</i>
<i>Interest expense and other financial expenses</i>	11	<i>(4,822,311)</i>	<i>(4,921,393)</i>
<i>(Income taxes paid)</i>		<i>(7,192,535)</i>	<i>(5,073,866)</i>
<i>(Use of provisions)</i>		<i>9,314,044</i>	<i>160,160</i>
Cash flow generated (absorbed) by operations		(35,605,257)	(4,329,172)
CASH FLOW STATEMENT OF INVESTMENT ACTIVITIES (B)			
Cash flows from changes in property, plant and machinery	16	(1,055,580)	(2,338,115)
Cash flows from changes in intangible fixed assets	14 - 15	(48,739,527)	(271,791)
Cash flows from changes in equity investments	18	(3,511,800)	(1,169,757)
Cash flows from changes in receivables for loans	19	7,803,190	(8,574,117)
Cash flows from changes in financial instruments	8 - 28 - 43	4,314,201	3,357,122
Cash flow generated (absorbed) by investments		(41,189,516)	(8,996,658)
CASH FLOW STATEMENT OF FINANCING ACTIVITIES (C)			
Cash flows from third party financing:			
Increase (decrease) in short-term payables	39	96,016,477	13,688,833
Increase (decrease) in long-term payables	34	(7,120,488)	(897,189)
Dividends paid		0	0
Other changes in shareholders' equity items	33	0	0
Cash flow generated (absorbed) by financing activities		88,895,988	12,791,644
Increase (decrease) in cash and cash equivalents		18,000,398	5,506,840
Opening cash and cash equivalents		9,071,201	3,564,362
Closing cash and cash equivalents		27,071,599	9,071,201

EXPLANATORY NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Introduction

Green Network S.p.A. (hereinafter also “the company”) operates in the energy sector and corporate activities are focused, in particular, on the trading of electricity and gas. The company also generates electricity from renewable sources through its subsidiaries.

Pursuant to art. 2497-bis, paragraph 4, of the Italian Civil Code, it should be noted that the company is subject to the management and coordination activities of SC Holding S.r.l., with registered office in Viale della Civiltà Romana no. 7, Rome, Tax Code 08420631007, for which the key data for the last set of approved financial statements are provided below. For a full and comprehensive analysis of the economic and financial position of SC Holding S.r.l. at 31 December 2016, as well as of the economic results achieved by the company in the financial year ending on that date, reference is made to the financial statements available in the forms and in the manner prescribed by law.

BALANCE SHEET (€)		31.12.2016	INCOME STATEMENT (€)		31.12.2016
	Non-current assets	21,488,123		Revenues	704,790
	Current assets	15,442,577		Costs	(511,400)
	TOTAL ASSETS	36,930,700		Net profit (loss)	193,391
	Shareholders' equity	9,732,160		Financial income (expense) from financial instruments measured at FV	0
	Non-current liabilities	4,060,388		Net profit (loss) from disposal of current end non-current operating assets	(178,993)
	Current liabilities	23,138,152		Financial income (expense)	(197,967)
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	36,930,700		Share of income/(expense) deriving from equity investments valued using the equity method	0
				Pre-tax profit (loss)	(183,570)
				Taxation	75,302
				Net profit (loss) for the year	(108,268)

It should be noted that SC Holding also drew up the consolidated financial statements for 2016.

Basis of presentation of financial statements

The annual financial statements are prepared in compliance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), recognised by the European Union in accordance with EC Regulation 1606/2002 and in force at the close of the year (the set of all reference standards and interpretations indicated above are defined below as “EU-IFRS”). In particular, the EU-IFRS were applied consistently to all periods presented in this document. This annual financial report was approved by the Board of Directors on 27 April 2018 and has been audited by PricewaterhouseCoopers S.p.A..

These financial statements present a clear, true and fair view of the company's financial position and its economic result. The financial statements correspond to the accounting records duly kept by the company.

The book values are stated in euros, with rounding of the associated amounts. Any rounding differences are indicated in the item "Euro rounding reserve", included under shareholders' equity items, under the item "Euro rounding".

The financial statement layouts used are the same as those used to prepare the financial statements at 31 December 2016.

These financial statements were drafted on the basis of the going concern assumption, given that the Directors verified the non-existence of financial, management or other types of indicators that may signal criticalities regarding the company's ability to be able to fulfil its obligations in the foreseeable future, especially in the next 12 months.

The financial statements were drafted on the basis of the conventional historical cost criterion, except for the measurement of certain financial assets and liabilities, in cases in which the application of the fair value criterion is mandatory.

Restatement of some comparative values

For a better reporting, the comparative values relating to the financial year ended 31 December 2016 were restated to a lesser extent in order to recognise the tax effect arising from changes in the fair value of hedging derivatives and financial assets available for sale charged to equity, as well as from a change in the employee severance indemnity and other employee benefits.

	31.12.2016 comparative values	31.12.2016	Change
Share capital	15,636,000	15,636,000	0
Legal reserve	1,128,036	1,128,036	0
Extraordinary reserve	3,950,884	3,950,884	0
Equity method valuation reserve	6,297,596	6,297,596	0
Shareholder contributions	13,394	13,394	0
Profits (losses) carried forward	(23,580,869)	(23,580,869)	0
Derivative valuation reserve	930,953	1,307,886	(376,933)
AFS reserve	32,216	45,260	(13,044)
Rounding reserve	3	3	0
Actuarial gain reserve	(184,165)	(242,322)	58,157
FTA reserve	16,387,195	16,387,195	0
Profit (loss) for the year	6,041,026	6,041,026	0
Shareholders' equity	26,652,270	26,984,090	(331,819)

Revenue and cost accounts which include the realised amount connected with derivative operations, together with this change, have been all charged to costs for purchases of electricity and gas. For more details, reference is made to the table below:

	31.12.2016 comparative values	31.12.2016	Change
Revenues from sales and services	692,730,616	705,811,594	13,080,978
Electricity and gas purchase	615,336,273	628,417,251	13,080,978

It should be noted that payables to customers to which supplies are no longer provided were reclassified to "Other current liabilities" during the year. For more details, reference is made to the table below:

	31.12.2016 comparative values	31.12.2016	Change
Trade-related receivables	204,414,063	201,739,422	2,674,641
Other current liabilities	7,180,160	4,505,519	2,674,641

In addition to the above, time or pledged current bank accounts were reclassified to "Loans to banks and other financial institutions" during the year. For more details, reference is made to the table below:

	31.12.2016 comparative values	31.12.2016	Change
Loans to banks and other financial institutions	9,064,075	1,723,563	7,340,512
Cash and cash equivalents	10,475,496	17,816,008	(7,340,512)

Finally, it should be noted that in order to make the values for the financial year under review comparable with those of the previous year, reclassifications were made, where appropriate, in specific item details in the tables in the explanatory notes.

Significant events of the financial year

During 2017 the company carried out some business combinations with counterparties outside the Group, according to the "acquisition method" as required by IFRS3 "Business combinations" referred to in the disclosures on accounting policies.

These transactions are described below:

- ◆ With effect from 21 November 2017 the company acquired the business unit from Energrid S.p.A. concerning the wholesale trade and retail sale of electricity and natural gas to domestic and non-domestic customers. The consideration for the business unit was agreed between the parties in a total amount of EUR 1.

In order to manage the operations of the Energrid business unit, the company entered into a lease – while reserving the right to exercise an option to purchase – concerning the business unit of Energia e Territorio in relation to all IT software, licences, equipment, concessions, plants, computers and electronic devices required to perform the activities involving the sale of electricity and natural gas of the acquired business unit. The lease term is from 22 November 2017 to 31 May 2018 and the total lease payments agreed by the parties were equal to EUR 63,000. In consideration of Green Network S.p.A.'s right to exercise an option to purchase this business unit at a price of EUR 1 and of the actual acquisition that took place on 20 April 2018, the fair value of asset and liability items involved in the lease was recognised as early as in the financial statements at 31 December 2017, against an entry including a payable to the lessee.

- ◆ With effect from 21 November 2017 Energrid S.r.l. (established on 10 November 2017, with a quota capital that was fully subscribed by the sole quotaholder Green Network S.p.A.) acquired the business unit from Energrid S.p.A. concerning the purchase and sale of electricity and natural gas to Public Authorities. The consideration for the business unit was agreed by the parties in a total amount of EUR 1.

- ◆ With effect from 22 November 2017 the company acquired the business unit from Tradeinv Gas & Energy concerning the wholesale trade of electricity, as well as energy efficiency consultancy and design services. The consideration for the business unit was agreed by the parties in a total amount of EUR 1.

The Purchase Price Allocation (“PPA”) process has been developed in the phases reported below :

- ◆ Identification of acquired Assets acquired and of assumed Liabilities (including intangible assets not recognised in the accounts/financial statements) of the acquired business units;
- ◆ Estimation of residual useful lives of these assets;
- ◆ Calculation of the Fair Value of acquired assets and of assumed liabilities;
- ◆ Allocation of the purchase price to assets and liabilities based on their Fair Values.
- ◆ Calculation of deferred tax liabilities on Fair Value adjustments (Fair Value less Net Book Value);
- ◆ Calculation of residual goodwill and impairment test.

These transactions were carried out in accordance with the Green Network Group's strategic development policy, which envisages, among others, external growth through the consolidation of operators active in the domestic segment/SMEs and the acquisition of customer portfolios.

The table below summarises the consideration paid, the fair value of assets and liabilities acquired at the transaction date, as well as the final allocation of the purchase price.

€/th.	Book value at 21/11/2017	FV Adjustments	Fair Value at 21/11/2017
ASSETS			
Intangible fixed assets	76	47,092	47,168
Intangible fixed assets	76	-	76
Goodwill after PPA	-	26,504	26,504
Customer relationship	-	12,468	12,468
CR Condominium + Domestic + SOHO	-	5,438	5,438
CR Large + Micro-SMEs + SMEs + Multisite	-	6,611	6,611
CR Public Authority	-	419	419
Brand	-	8,120	8,120
Tangible fixed assets	276	-	276
Fixed assets	352	47,092	47,444
Receivables	136,405	-	136,405
Trade-related receivables	120,608	-	120,608
Tax credits	8,274	-	8,274
Other assets	7,523	-	7,523
Current financial assets	6,775	-	6,775
Payables	(148,230)	-	(148,230)
Trade-related payables	(140,705)	-	(140,705)
Tax payables	(2,869)	-	(2,869)
Other liabilities	(4,656)	-	(4,656)
Net working capital	(5,051)	-	(5,051)
Deferred tax assets	-	-	-
Deferred tax liabilities	-	(5,934)	(5,934)
Deferred tax assets/(liabilities)	-	(5,934)	(5,934)
Employee severance indemnity and other employees benefits	(883)	-	(883)
Employee severance indemnity and other employees benefits	(883)	-	(883)
Provisions for risks and charges	(9,830)	-	(9,830)
Provisions for risks and charges	(6,069)	-	(6,069)
Derivative liabilities	(3,761)	-	(3,761)
Provisions	(10,713)	-	(10,713)
NET INVESTED CAPITAL	(15,411)	41,159	25,748

Loans	12,386	-	12,386
(Cash and cash equivalents)/Short-term payables	13,361	-	13,361
Net financial position	25,748	-	25,748
Total shareholders' equity	(41,159)	41,159	0
SOURCES	(15,411)	41,159	25,748

It should be noted that, during 2017, **Sacri Real Estate S.p.A.** was merged by incorporation into the company, with a view to the group's reorganisation. The statutory and tax effects of the non-recurring transaction date back to the first day of the financial year.

The table below shows the accounting entries that were involved in the merger at 1 January 2017 (the effective date of the merger).

Non-current assets	Values in €
Property, plant and machinery	803,703
Investment property	8,254,373
Equity investments	380,108
Receivables from parent companies, subsidiaries, associates and joint ventures	10,000
Deferred tax assets	195,815
Other non-current assets	400
Total	9,644,399
Current assets	
Trade-related receivables	2,292
Receivables from parent companies, subsidiaries, associates and joint ventures	185,907
Tax credits	2,010
Other current assets	80,680
Cash and cash equivalents	15,319
Total	286,208
Total assets	9,930,607
Shareholders' equity and liabilities	
Shareholders' equity	
Share capital	2,000,000
Other reserves	- 141,153
Net profit/(loss) for the year	- 609,083
Accumulated profits and losses	- 1,090,572
Total shareholders' equity	159,192
Non-current liabilities	
Long-term loans	8,431,941
Payables to parent companies, subsidiaries, associates and joint ventures	108,000
Provisions for risks and charges (non-current portion)	199,679
Other non-current liabilities	3,400
Total	8,743,020
Current liabilities	
Short-term loans	747,740
Trade-related payables	36,289
Derivatives	480
Payables to parent companies, subsidiaries, associates and joint ventures	141,689
Other current financial liabilities	102,197
Total	1,028,395
Total shareholders' equity and liabilities	9,930,607

Measurement Criteria

Intangible fixed assets

Intangible fixed assets are the identifiable assets controlled by the entity that are able to produce future economic benefits.

These assets are recognised in the financial statements at purchase, production or transfer costs, including any accessory expenses and direct costs needed to make the asset available for use and net of any grants related to assets. Development costs are also capitalised provided that the cost can be reliably determined and that it can be demonstrated that the asset is able to produce future economic benefits.

Intangible fixed assets with a finite useful life are amortised systematically starting from the moment the asset is available for use over the period of intended use.

Intangible assets arising from the allocation of the higher value of acquired business units are amortised over the following periods:

- 10 years for the brand;
- 8 years for "VAT" customer relationship;
- 5 years for "domestic" customer relationship;
- 1 year for "public authority" customer relationship.

Intangible fixed assets with an indefinite useful life (goodwill) are not subject to systematic amortisation but are tested at least annually for impairment (impairment test).

Property, plant and machinery and investment property

Operating property, plant and machinery are recorded under "property, plant and machinery" while non-operating properties are classified as "investment property". These are booked in the financial statements at purchase, production or transfer cost, including accessory expenses according to the criteria already indicated for intangible fixed assets.

The single components of a plant that have a different useful life are booked separately so that they are depreciated in line with their duration based on a 'component' approach.

The costs incurred subsequent to purchase are recognised to increase the book value of the element to which they refer, if it is likely that the future benefits associated with the cost incurred to replace a part of the asset will flow to the company and the cost of the element can be reliably determined. All other costs are booked to the income statement in the year in which they are incurred.

Fixed assets are depreciated systematically each year on a straight-line basis according to the economic-technical rates determined in relation to the asset's residual useful life. The range of years of useful life estimated by the company is reported in the following table:

Description	Useful life (years)
Plant and machinery	4 - 20
Equipment	6
Furniture and furnishings	8
Electronic office machines	5
Mobile phones	5
Cars	4
Sundry equipment	4

The presumed realisable value which is expected to be recovered at the end of the useful life is not amortised.

A fixed asset is eliminated from the financial statements at the time of sale or when the future economic benefits expected from its use or disposal no longer apply. Any losses or profits (calculated as the difference between the net proceeds of the sale and the book value) are included in the income statement upon said elimination.

The residual value of the asset, useful life and methods applied are reviewed annually and adjusted if necessary at the end of each financial year.

In respect of assets acquired under finance leases, in compliance with the provisions of IAS 17, a financial payable for the same amount is recognised under liabilities. The payable is progressively reduced based on the instalments for the repayment of the capital included in the contractually agreed upon rents, while the value of the assets recorded under "property, plant and machinery" is systematically depreciated based on the economic-technical life of the asset itself.

If there are indicators of impairment, the tangible fixed assets are subject to impairment testing, as illustrated below in the section "impairment of assets"; any write-downs may later be written back if the reasons for the write-down no longer exist.

Environmental certificates (Emission quotas and green certificates)

Green certificates are booked in the item "Other non-current assets" under balance sheet assets, carried at purchase cost. This item is subject to impairment testing.

The green certificates accrued in relation to the production of energy with plants that use renewable energy sources are similar to non-monetary operating grants and recognised at fair value under other revenues and income, with contra-item in 'other non-financial assets', if the certificates were still not credited to the proprietary account, or inventories, if the certificates were already credited.

Impairment losses

At each financial statements reporting date, intangible assets, property, plant and equipment and equity investments are analysed to identify the existence of any indicators of impairment. If the presence of these indicators is identified, the recoverable value of the aforementioned assets is estimated, recognising any write-down with respect to the book value in the income statement.

The recoverable amount of an asset is the higher of the fair value of the asset, less costs to sell, and its value in use. The latter refers to the present value of the expected future cash flows for said asset. For an asset that does not generate sufficiently independent cash flows, the realisable value is determined in relation to the cash-generating unit (CGU) to which said asset belongs. In determining

the value in use, the expected future cash flows are discounted using a discount rate that reflects the current market valuation of the cost of borrowing, in relation to the investment period and specific risks of the asset. Impairment is booked to the income statement when the book value of the asset is higher than its recoverable value. If the reasons for a write-down previously effected no longer apply, the book value of the asset, excluding goodwill, is written back to the income statement, up to the limits of the net book value that the asset in question would have had if the write-down had not been carried out and if depreciation had been charged.

Non-current assets (or disposal groups) classified as held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount will be recovered through a sale transaction rather than through their on-going use. Application of this criterion requires that the non-current assets (or disposal groups) are available for immediate sale in their current conditions and that the sale be highly probable.

When the Company is involved in a sale transaction that involves the loss of control in an investee and the requirements of IFRS 5 are met, all assets and liabilities of the subsidiary are classified as held for sale regardless of whether the Group will continue to hold a non-controlling interest in the company after the sale.

In accordance with IFRS 5, non-current assets (or disposal groups) and liabilities included in disposal groups classified as held for sale are recognised separately from other assets and liabilities in the balance sheet, without offsetting or restating and re-posting the accounting values of comparative periods.

Immediately before the initial classification of non-current assets (or disposal groups) as held for sale, the carrying amounts of the asset (or group) are valued in accordance with the specific reference IAS/IFRS applicable to specific assets or liabilities. Non-current assets (or disposal groups) classified as held for sale are valued at the lower of the carrying amount and the relative fair value, less selling costs. The economic components of an initial or subsequent impairment of the asset (or disposal group) as a result of the valuation at fair value less selling costs and those relating to the reversals of impairment losses are recognised in the income statement under the continuing operations result. Non-current assets are not depreciated until they are classified as held for sale or for as long as they are included in a disposal group classified as held for sale. If the classification criteria are no longer met, the Group does not classify the asset (or disposal group) as held for sale and, in this case, these activities are valued at the lower of:

- ◆ the carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation or reversals that would have been recognised had the asset (or disposal group) not been classified as held for sale, and
- ◆ its recoverable value calculated at the date of the subsequent decision not to sell, which is equal to the greater of its fair value less disposal costs and its value in use.

Any adjustment to the carrying value of the non-current asset that ceases to be classified as held for sale is recorded in the continuing operations result.

A discontinued operation is a component of a Company that has been divested, or classified as held for sale, and

- ◆ represents a separate major line of business or geographical business area,
- ◆ is part of a single coordinated programme to dispose of a separate major line of business or geographical business area, or
- ◆ is a subsidiary acquired exclusively with a view to sale.

The Group sets out in a separate item in the income statement a single amount represented by the total of:

- ◆ profits or losses of discontinued operations net of tax effects, and
- ◆ profit or loss, net of tax effects, recognised as a result of the valuation at fair value less selling costs or the disposal of the asset (or disposal group) constituting the discontinued operation.

Business combinations

According to IFRS3, the business combinations involving a business unit must be accounted for by applying the acquisition method, which provides for the following phases:

- ◆ identification of the acquirer;
- ◆ determination of the business combination cost;
- ◆ allocation, as at the acquisition date, of the business combination cost to assets acquired and liabilities and potential liabilities assumed.

Specifically, the business combination cost is determined as the total sum of fair values, at the date of exchange, of assets sold, of liabilities sustained or assumed and of equity instruments issued, in exchange for the control of the acquiree.

The acquisition date is the date on which the acquirer actually obtains control of the acquiree. If an acquisition is achieved in one exchange transaction, the date of exchange is the date of acquisition.

When a business combination is carried out through more than one exchange transaction, the combination cost is equal to the fair value of the entire equity investment acquired as recognised on the date on which control is obtained. This entails the revaluation of the equity investments previously held in the acquired business at fair value through profit or loss.

The business combination cost is allocated by recognising any identifiable assets, liabilities and potential liabilities of the acquiree at their respective fair values at the acquisition date.

The positive difference between the business combination cost and the net fair value of identifiable assets, liabilities and potential liabilities, must be accounted for as goodwill.

After initial recognition, any goodwill acquired within a business combination shall be tested for impairment at least annually.

If the difference is negative, a new measurement is made. If this negative difference is confirmed, it is recognized immediately as a revenue in the income statement.

If the fair values of assets, liabilities and potential liabilities can be determined on a provisional basis only, the business combination is recognised by using these provisional values. Adjustments (if any), arising from the completion of the valuation process, are recognised within 12 months as from the date of acquisition, restating any comparative value.

Financial instruments

Financial instruments are recognised and valued according to IAS 32 or IAS 39. A financial asset or liability is recorded in the financial statements when, and only when, the Group becomes party to the contractual clauses of the instrument (trade date).

Financial instruments are classified on the basis of IAS 39 as follows:

- ◆ financial assets and liabilities at fair value through profit and loss (FVTPL);
- ◆ financial assets held to maturity (HTM);
- ◆ loans and receivables (L&R);
- ◆ financial assets available for sale (AFS);
- ◆ financial liabilities measured at amortised cost.

Financial assets and liabilities at fair value through profit and loss (FVTPL)

Debt securities are classified in this category, as well as equity investments in companies other than subsidiaries, associated companies and joint ventures and investment funds held for trading or designated at fair value in the income statement at the moment of initial recognition.

These instruments are initially recognised at the associated fair value and subsequent profits and losses deriving from fair value changes are booked to the income statement.

Financial assets held to maturity (HTM)

This category includes non-derivative financial assets, with fixed or determinable payments and fixed maturities, listed in active markets, that are not represented by equity investments, for which the Group has the intention and the capacity to hold them to maturity. These assets are initially recognised at fair value, including transaction costs and are subsequently valued at amortised cost using the effective interest rate method.

Loans and receivables (L&R)

This category mainly includes trade-related receivables and other financial receivables. Loans and receivables are non-derivative financial assets, with fixed or determinable payments that are not listed in an active market, other than those that the company intends to sell immediately or in the short-term (classified as held for trading) and those that the company, at the time of initial recognition, designated at fair value through profit or loss or as available for sale. These assets are initially recognised at fair value, adjusted if necessary for transaction costs, and are subsequently valued at amortised cost using the effective interest rate method, without any discount if it is immaterial.

Available-for-sale assets (AFS)

This category primarily includes listed debt securities not classified as held to maturity and equity investments in other companies (if not classified as “financial assets at fair value through profit and loss”).

Assets available for sale are designated at fair value and the profits and losses determined are booked to shareholders' equity, in particular to the “AFS Reserve” and charged to the statement of other comprehensive income.

This reserve is reversed to the income statement only at the moment in which the financial asset is actually sold or, in the case of negative changes, when there is evidence that the impairment already

recorded in shareholders' equity cannot be recovered as provided for in IAS 39 in relation to prolonged and continued loss: "when a decline in the fair value of an available-for-sale financial asset has been recognised in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in equity shall be reclassified from equity to profit or loss even though the financial asset has not been derecognised."

When the fair value cannot be reliably determined, these assets are booked at cost, adjusted for any impairment.

Financial liabilities at amortised cost

This category mainly includes loans, trade-related payables, financial leasing payables and debt instruments.

Financial liabilities other than derivatives are recognised when the company becomes party to the contractual clauses of the instrument and are initially recorded at fair value adjusted by directly attributable transaction costs. Financial liabilities are subsequently valued using the amortised cost approach, applying the effective interest rate method. Non-interest bearing loans are discounted on the basis of the market rate.

Derecognition of financial assets and liabilities

Financial assets are eliminated from the balance sheet when the right to receive the cash flows is extinguished and all risks and rewards connected with holding the asset (derecognition) are substantially transferred, or in the event the item is considered definitively non-recoverable, after all necessary recovery procedures have been completed. Financial liabilities are eliminated from the balance sheet when the specific contractual obligation is extinguished. An amendment of existing contractual terms also constitutes extinguishment, if the new conditions have significantly altered the original agreements and, in any case, when the present value of the cash flows that will be generated from the revised agreements vary by more than 10% from the value of the discounted cash flows of the original liability.

Fair value measurement

The fair value is defined as the price that would be received from the sale of an asset or that would be paid to transfer a liability in a normal transaction between market operators at the date on which the measurement is performed.

The fair value of instruments listed in public markets is determined by making reference to prices at the date of the end of the period. The fair value of unlisted instruments is measured by making reference to financial valuation techniques.

Financial assets and liabilities measured at fair value are classified into the three hierarchical levels described below, based on the relevance of the information (inputs) used in determining the fair value itself. Specifically:

- ◆ Level 1: financial assets and liabilities whose fair value is determined on the basis of the prices listed (not modified) on active markets for identical assets or liabilities;
- ◆ Level 2: financial assets and liabilities whose fair value is determined on the basis of the inputs other than the listed prices referred to in Level 1 but directly or indirectly observable;

- ◆ Level 3: financial assets and liabilities whose fair value is determined on the basis of the input data that are not based on observable market data.

Derivative financial instruments

A derivative is a financial instrument or another contract:

- ◆ whose value changes in relation to variations in a an “underlying” parameter, such as interest rate, price of a security or commodity, foreign exchange rate, price or interest rate index, credit rating or other variable;
- ◆ that requires a net initial investment equal to zero, or less than the amount that would be required for contracts with a similar response to changes in market conditions;
- ◆ that is settled at a future date.

Derivative contracts are initially recognised at fair value, on the date the contract is negotiated, and subsequently measured at fair value.

When financial instruments meet the requirements to qualify for hedge accounting, as per IAS 39, the following accounting treatments are applied:

- ◆ Cash flow hedge: if the derivatives hedge the risk of cash flow changes in the elements subject to hedging, the effective portion of the fair value changes in the derivatives is booked directly to shareholders' equity, in particular to the “derivatives valuation reserve” and booked to the statement of other comprehensive income, while the ineffective portion is booked directly to the income statement. At the moment the transaction is performed in the future, the amounts recorded directly in shareholders' equity are reflected in the income statement consistent with the economic effects of the hedged element;
- ◆ Fair value hedge: if the derivatives hedge the risk of fair value changes in the elements subject to hedging, the fair value changes in derivatives are booked directly to the income statement.

Contracts for purchase or sale of non-financial elements

In general, contracts for purchase or sale of non-financial elements, which have been executed and continue to be held for collection or delivery, according to the normal purchase, sale or use requirements set out by the Company, fall outside the scope of application of IAS 39 (“own use exemption”) and, therefore, are recognised in accordance with the relevant accounting rules.

These contracts are recognised as derivatives and, accordingly, at fair value through profit or loss only if:

- ◆ they can be settled net;
- ◆ they were not entered into by the Company for its normal use, purchase and sale requirements.

A contract for purchase or sale of non-financial elements is classified as “normal contract of sale” if it has been executed:

- ◆ for physical delivery purposes
- ◆ for the normal use, purchase and sale requirements of the Company.

The Company enters into all forward contracts for purchase or sale of electricity and energy

commodities for the purposes of physical delivery and for normal use, purchase and sale requirements. Therefore, these contracts are executed for “own use exemption”.

Cash and cash equivalents

Cash and cash equivalents include bank and postal deposits, readily tradable securities that represent temporary investments of liquidity and financial receivables due within three months.

Inventories

Inventories are recognised at the lower of the purchase or production cost and the net realisable value, represented by the amount the company expects to obtain from their sale during the normal course of business, less costs to sell. The cost of inventories of raw materials, consumables and finished products and goods for resale is determined by applying the weighted average cost method.

Employee benefits

Employee severance indemnity is determined by applying an actuarial method: the amount of the rights accrued in the year by employees is booked to the income statement to the item 'payroll and related costs', while the figurative financial expense that the company would incur if a loan was requested from the market for an amount equal to the Employee severance indemnity, is booked to “Financial income (expense)”. Actuarial gains and losses that reflect the effects of changes in the actuarial assumptions used are booked to the statement of other comprehensive income, taking account of the remaining average working life of the employees.

Provisions for risks and charges

Provisions for risks and charges are allocated exclusively in the presence of an actual obligation that can be reliably estimated, resulting from past events, that may be legal, contractual or derive from Group declarations or conduct to lead third parties to have reasonable expectations that the Group is responsible for or assumes responsibility for fulfilling an obligation (so-called “implicit obligations”). If the financial effect of time is significant, the liability is discounted and the effect of the discounting is booked under financial charges.

Other assets/liabilities

These items include the residual amount of current and non-current assets and liabilities. Asset items include deferrals for fees paid to agents, whose benefit will arise during subsequently years.

Recognition of revenues and costs

Revenues are recognised to the extent that it is probable that economic benefits will be achieved by the company and the associated amount can be reliably determined. Revenues are measured at the fair value of the consideration received or receivable, taking into account the value of any sales discounts, returns and allowances granted by the company.

More specifically, based on the transaction type, revenues are recognised according to the specific criteria illustrated below:

- ◆ revenues from the sale of goods are booked when the risks and rewards of ownership of the assets are transferred to the purchaser and their amount can be reliably determined;

- ◆ revenues from the sale and transport of electricity and gas is recognised when the commodities are provided to the customers and refer to the quantities supplied in the year, even if not invoiced; they are determined by adding suitable estimates to the figures recorded based on periodic meter readings. Where applicable, these revenues are based on the tariffs and related restrictions set out in legal provisions and those of the Italian Energy Authority and equivalent foreign institutions, in force during the reference period;
- ◆ revenues from the provision of services are recorded with reference to the stage of completion of the service at the balance sheet date, in the years in which the services are provided. The stage of completion of the service is determined on the basis of the valuation of the service rendered as a percentage of the total of the services that need to be rendered or as a proportion of the costs incurred and the estimate of the total costs of the transaction. In the event it is not possible to reliably determine the value of revenues, they are recognised up to the amount of the costs incurred that it is believed will be recovered;
- ◆ the income statement includes cost and revenue items dedicated to the management of costs of transport, dispatching, etc., for which the company recognises a revenue from sales to end customers and, subsequently, a related cost towards energy distribution companies. Any related income and costs are accounted for according to the normal business strategy and the relevant accounting standards.

Financial income and expense are recognised on an accruals basis.

Dividends are recognised when the right to collection by shareholders arises, which normally occurs in the year in which the shareholders' meeting of the investee is held that resolves the distribution of profits or reserves.

Taxation

Current taxes are based on the taxable result for the financial year. This differs from the result reported in the income statement as a result of the exclusion or inclusion of positive and negative components that will be taxable or deductible in other financial years and also excludes items that will never be taxable or deductible.

Current tax payables are calculated using the rates in force or existing at the date of this Report and the taxation instruments allowed by tax legislation.

Deferred tax liabilities/assets are taxes that are expected to be paid or recovered on the temporary differences between the carrying value of assets and liabilities in the balance sheet and the corresponding fiscal value used in the calculation of the tax base, accounted for according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent that it is considered likely that there will be fiscal results that are taxable in the future that will enable the use of the deductible temporary differences.

The value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that, on the basis of specific plans adopted by the company, it is no longer considered probable that sufficient taxable income will be available such as to allow all or part of such assets to be recovered.

Deferred tax liabilities/assets are calculated on the basis of the tax rate that is expected to be in force

at the time of the realisation of the asset or the settlement of the liability. Deferred tax liabilities/assets are recognised directly in profit or loss, except for those relating to items that are recognised directly in equity, in which case the related taxes are also charged to equity.

Accounting standards, amendments, interpretations and improvements applicable from 1 January 2017

With effect from 1 January 2017, the following documents came into force, which had already been previously issued by the IASB and endorsed by the European Union and which include amendments to the international accounting standards:

◆ IAS 7: STATEMENT OF CASH FLOWS

This document was issued by the IASB on 29 January 2016. The amendments to IAS 7 Statement of cash flows require the entities to provide disclosures on the changes in their financial liabilities, in order to enable users to evaluate the reasons for changes in the entity's debt, including both changes arising from cash flows and non-monetary changes. Upon first-time application of this amendment, the entity must not present comparative disclosures relating to past periods.

The application of these amendments had no impact on the preparation of this Report.

◆ IAS 12: INCOME TAXES

On 19 January 2016 the IASB published the abovementioned Amendment, which clarifies the methods to recognise deferred tax assets relating to debt instruments measured at fair value. These amendments clarify when a deferred tax asset should be recognised for unrealised losses, in order to standardise accounting practices.

The application of these amendments had no impact on the preparation of this Report.

◆ IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2014-2016 CYCLE)

On 8 December 2016 the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle". The amendments concern a draft project issued on 19 November 2015 (see IFRB 2015/10). The document also introduces amendments to IFRS 12 Disclosure of Interests in Other Entities: the amendment provides for the disclosure obligations required by interests in other entities to be stated even if they are classified as held for sale. The amendments shall apply retrospectively to financial periods commencing on or after 1 January 2017.

The application of these amendments had no impact on the preparation of this Report.

Accounting standards, amendments, interpretations applicable after the end of the financial period

◆ IFRS 9: FINANCIAL INSTRUMENTS

On 25 July 2014 the IASB published IFRS 9 Financial Instruments, including the section on the classification and measurement of financial instruments, the impairment model and hedge accounting. IFRS 9 makes amendments to the accounting rules of IAS 39 with reference to the recognition and measurement of financial instruments, including hedging transactions.

The standard provides for the three following categories for the classification of financial assets:

- financial assets measured at amortised cost;
- financial assets measured at fair value through profit and loss (FVTPL);
- financial assets measured at fair value through other comprehensive income (FVTOCI).

With reference to this classification, the following additional provisions are noted:

- non-trading equity instruments, which should be classified as FVTPL, can be classified as FVTOCI on the basis of an irrevocable decision of the entity that prepares the financial statements. In this case fair value changes (including exchange differences) shall be recognised in OCI and shall never be reclassified to profit/(loss) for the period;
- if the financial assets classified at amortised cost or as FVTOCI create an accounting mismatch, the entity that prepares the financial statements may make an irrevocable election to use the fair value option, thus classifying these financial assets as FVTPL;
- with reference to debt instruments classified as FVTOCI, it should be noted that interest income, expected credit losses and exchange differences shall be recognised in profit/(loss) for the year. The other effects from fair value measurement shall be recognised in OCI and shall instead be reclassified to profit/(loss) for the year only if the financial asset is derecognised.

As regard financial liabilities the standard provides for the same classification as envisaged in IAS 39, but introduces new key requirements with reference to financial liabilities classified as FVTPL, since the amount of fair value change attributable to own credit risk ("own credit risk") shall be recognised in OCI rather than in profit/(loss) for the year, as currently required by IAS 39. Therefore, under IFRS 9, if there is an increase in its credit risk, the entity shall reduce the value of its liabilities measured at fair value and shall reflect the effect of this reduction in Other Comprehensive Income rather than in profit/(loss) for the year.

IFRS 9 introduces a new impairment model based on expected losses. The entity must immediately account, regardless of whether a trigger event has occurred or not, for any future expected losses on its financial assets, and shall adjust the estimate on an ongoing basis, also in consideration of changes in the counterparty's credit risk, based not only on past and present facts and data, but giving the right relevance to future forecasts as well. Future losses must be estimated initially with reference to 12-month expected losses, and subsequently, with reference to lifetime expected credit losses. 12-month expected losses consist of the amount of losses that would be incurred if a counterparty's default event occurs within 12 months from the reporting date, and are given by the entire credit loss weighted by the probability that a default event will occur.

Lifetime total losses of the financial asset are the present value of average future losses weighted by the probability that a default event will occur during the lifetime of the financial asset.

IFRS 9 introduces a hedge accounting model aimed at reflecting, in the accounts, the risk management activities carried out by the company, focusing on the fact that if a risk element can be identified and measured, regardless of the type of risk and/or object, the instrument used to "hedge" these risks can be denominated in hedge accounting, this risk merely impacting on the income statement or other comprehensive income (OCI).

Furthermore, the standard allows the entity to also use information that is provided internally as a basis for hedge accounting, without having to prove that the entity is complying with complex criteria and metrics create for accounting purposes only. The major changes concern:

- effectiveness test: the 80-125% threshold is abolished and replaced by an objective-based test that verifies the economic relationship between hedged item and hedging instrument (e.g. if there is a loss on the former, a profit must be reported on the latter);
- hedged items: not only financial assets and liabilities but any item or group of items, provided that the risk can be identified and measured separately;
- cost of hedging: the time value of an option, forward points, currency basis spreads may be excluded from hedge accounting and accounted for immediately as cost of hedging: therefore, all mark-to-market fluctuations may be temporarily recognised in other comprehensive income (OCI);
- disclosure: the standard introduces more extensive disclosure on hedged risks and related hedging instruments, replacing the current disclosure based on the distinction between cash flow hedge and fair value hedge instruments, since we are dealing with an accounting terminology that often confuses investors, who are clearly more interested in the risks they are exposed to and in how they are hedged rather than in the accounting categories of said instruments.

The new standard will be applicable from 1 January 2018, with early adoption permitted.

The company has not opted for early adoption of this standard, but has conducted an assessment of the impact arising from the application of IFRS9. Green Network S.p.A. has not reported any significant expected impact due to the adoption of the new standard on the basis of the findings emerging from this work.

◆ IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS

On 29 May 2014 the IASB and the FASB jointly published – following a study and consultation phase that lasted for over a decade – the new provisions to account for revenues. The new standard will replace IAS 18 (Revenue) and IAS 11 (Construction Contracts) from 2017.

The key steps in accounting for revenues are:

- identifying the contract with a customer, defined as an agreement (either written or oral) between two or more parties that creates enforceable rights and obligations;
- identifying the performance obligations (separately identifiable) in the contract;
- determining the transaction price, as the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, based on the techniques required by the Standard and depending on whether financial components are present or not;
- allocating the transaction price to each performance obligation;
- recognising revenue when the obligation is satisfied, taking account of the fact that services may be delivered at a specific time, as well as during a certain period of time.

The standard should not make particular amendments in accounting for transactions that are regarded as more common than others. Greater differences in recognition timing and quantitative measurement should be found in medium/long-term service contracts and in agreements containing

several obligations, in relation to which the operators highlighted the key critical issues of the current regulations. The disclosure on revenues should be improved with more extensive qualitative and quantitative information so as to allow the stakeholders to obtain a clearer understanding of the content and elements that are relevant to the measurement of revenues.

The standard will be applicable from 1 January 2018, with early adoption permitted.

In April 2016 the IASB published some clarifications that mainly addressed the following topics:

- identifying performance obligations (a promise to transfer goods or services to a customer) in a contract;
- determining whether an entity is a principal (the provider of a good or service) or an agent (responsible for the organisation of the good or service to be provided); and
- determining whether the revenue arising from licensed goods must be recognised at a specific time or throughout the term of the concession.

In addition to clarifications, the amendments also include two further remarks to reduce costs and complexity for an entity upon first-time application of the new standard.

The clarifications will also be applicable from 1 January 2018, with early adoption permitted.

The company has not opted for early adoption of this standard, nor of related clarifications, but has conducted an assessment of the impact arising from the application of IFRS15. The company has not reported any significant expected impact on the income statement and balance sheet due to the adoption of the new standard on the basis of the findings emerging from this work. The main effects relate to the netting of costs and revenues for which the entity can be qualified as an agent (transport costs, dispatching costs, etc.). The company has already adopted a policy to distribute these costs on the basis of the average term of contracts with customers with reference to the fees paid to its agents.

◆ IFRS 16: LEASES

This standard, which was issued in January 2016 to replace the standard previously applicable to leases, IAS 17 and related interpretations, sets out criteria for recognition, measurement and presentation, as well as disclosures to be provided, with reference to lease agreements for both parties, i.e. the lessor and the lessee. IFRS 16 no longer applies the distinction, in terms of classification and accounting treatment, between operating lease (the information about which is reported on an off-balance sheet basis) and finance lease (which is reported in the accounts). The right of use of the leased asset and related commitment will be reported in the financial data of the accounts (IFRS 16 shall apply to all transactions that provide for a right of use, regardless of the contract form, i.e. lease, rent or hiring). The key development is the addition of the concept of control to the definition. Specifically, IFRS 16 requires to establish whether the lessee has a right to control the use of an identified asset for a given period of time in order to determine whether a contract is a lease or not.

The approach to lessee and lessor accounting will be different: there will still be a different accounting treatment depending on whether a lease is classified as operating or finance (based on the current guidelines). According to this new model, the lessee must recognise:

- a) in the balance sheet, assets and liabilities for all leases that have a term greater than 12 months, unless the underlying asset has a modest value; and
- b) in the income statement, amortisation of leased assets separately from interest relating to any

associated liability.

As regards lessors, the new standard should have a lower impact on the accounts (save when subleases are entered into) since the current accounting will remain unchanged, except for financial reporting, which shall be more extensive in quantitative and qualitative terms. The standard, whose endorsement process was completed in October 2017, will be applicable from 1 January 2019, with early adoption permitted if IFRS 15 – Revenue from contracts with customers is also adopted.

The Group did not opt for the early adoption of this standard.

◆ IFRIC 22: FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

The interpretation, which was issued by the IASB in December 2016, provides clarifications for the purposes of determining the exchange rate to be used upon initial recognition of an asset, costs or revenues (or part thereof); the transaction date is that on which the entity recognises a non-monetary asset (liability) as a result of advances paid (received). The amendments will be applicable, subject to prior endorsement, from the financial periods commencing on or after 1 January 2018.

◆ AMENDMENTS TO IAS 40: TRANSFERS OF INVESTMENT PROPERTY

The document, which was issued in December 2016, clarifies that the transfers to or from investment property should only be made when there is evidence of a change in use; a change in management's intentions by itself does not constitute evidence of a change in use. The amendments have extended the scope of application of the examples of change in use to include assets under construction and development and not only the transfer of properties that have been completed. The amendments will be applicable, subject to prior endorsement, from the financial periods commencing on or after 1 January 2018.

◆ IFRIC 23: UNCERTAINTY OVER INCOME TAX TREATMENTS

The interpretation provides clarifications on the recognition and measurement of IAS 12 – Income Taxes concerning the accounting for uncertainties in income taxes, while addressing improved transparency. IFRIC 23 shall not apply to taxes and duties that do not fall within the scope of application of IAS 12 and will be applicable to the financial periods commencing on 1 January 2019, with early adoption permitted.

◆ IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2014-2016 CYCLE)

On 8 December 2016 the IASB published the document “Annual Improvements to IFRSs: 2014-2016 Cycle”.

The document makes amendments to the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: the amendment no longer provides for the limited exemption granted to first-time adopters for transition to standards IFRS 7, IAS 19 and IAS 10. These transitional provisions were available in past reporting periods and, therefore, are no longer applicable.
- IAS 28 Investments in Associates and Joint Ventures: according to the amendment, a venture capital organisation, a mutual fund, unit trust and similar entities may elect to measure their

investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Council has clarified that this election should be made separately for each associate or joint venture upon initial recognition.

These amendments shall apply retrospectively for annual periods commencing on or after 1 January 2018, with early adoption permitted.

◆ IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2015-2017 CYCLE)

On 12 December 2017 the IASB published the document “Annual Improvements to IFRSs: 2015-2017 Cycle”.

The document makes amendments to the following standards:

- IFRS 3 - Business Combinations: the IASB has added paragraph 42A to IFRS 3 to clarify that when an entity obtains control of a business that is a joint operation, it must restate the value of this business, since this transaction would constitute a business combination achieved in stages and therefore to be accounted for on this basis.
- IFRS 11 - Joint Arrangements: furthermore, paragraph B33CA has been added to IFRS 11 to clarify that if a party participates in, but does not have joint control of, a joint operation, and subsequently obtains joint control of the joint operation (constituting a business as defined in IFRS 3), it is not required to restate the value of this business.
- IAS 12 - Income Taxes: this amendment clarifies that the tax effects of income taxes arising from the distribution of profits (i.e. dividends), including payments on financial instruments classified as equity, must be recognised when a liability is reported for the payment of a dividend. The effects of income taxes must be recognised in income statement, in the statement of comprehensive income or equity in consideration of the type of transactions or past events that generated distributable profits or how they were recognised initially.
- IAS 23 - Borrowing Costs: the amendment clarifies that in calculating the capitalisation rate for loans, an entity should exclude borrowing costs applicable to loans raised to specifically obtain an asset, only until the asset is ready and available for its intended use or sale. Borrowing costs relating to specific loans that remain in place after the related asset is ready for intended use or sale must subsequently be considered as included in the general borrowing costs incurred by the entity.

These amendments shall apply retrospectively for annual periods commencing on or after 1 January 2019, with early adoption permitted.

Use of estimates and subjective evaluations

The drafting of these financial statements and explanatory notes required Directors to use estimates and assumptions in determining certain assets and liabilities and in evaluating contingent liabilities. Future results stemming from the occurrence of the events could therefore differ from these estimates. The estimates and assumptions considered are constantly reviewed and the effects of any variations are booked immediately to the financial statements. The use of estimates is especially important for the following items:

- ◆ depreciation (for assets with a finite useful life) of tangible fixed assets and amortisation of intangible fixed assets and impairment testing, as described previously in the section relating to the “impairment of non-financial assets”;
- ◆ the measurement of derivative instruments and, more in general, of financial instruments; for details refer to the criteria outlined in “financial instruments” and the section relating to the “fair value measurement”;
- ◆ determination of certain sales revenues, provisions for risks and charges, bad debt provision and other write-down provisions, employee benefits and taxation: in these cases, the best possible estimates are made based on the information available.

Offsetting of financial assets and financial liabilities

In the presence of formal agreements with counterparties, the company offsets financial assets and financial liabilities when there is a legally enforceable right to set off the recognised amounts in the financial statements or, when it intends to either settle on a net basis or realise the asset and settle the liability simultaneously.

Sector-based information

The operational areas identified by the management in line with the management and control model used are the following: Power and Gas. Segmentation by geographical area is not considered to be relevant since the business is mainly concentrated in Italy.

Below are the results by business line, compared with those of the corresponding period of the previous year:

Sector-based information by business sector

31 December 2017	Power	Gas	Other assets	Total
Revenues	867,815,654	70,801,057	0	938,616,711
Direct costs	(824,020,937)	(58,207,590)	0	(882,228,527)
Investments	5,206,737	424,794	0	5,631,531
31 December 2016	Power	Gas	Other assets	Total
Revenues	626,774,505	65,956,111	0	692,730,616
Direct costs	(574,374,267)	(40,962,006)	0	(615,336,273)
Investments	3,824,177	402,422	0	4,226,599

Relevant customers in accordance with IFRS 8

No specific concentrations of sales by the company or relevant customers pursuant to IFRS 8 were noted.

Explanatory notes to income statement items

1. Revenues from sales and services - EUR 938,616,711

Revenues from sales and services, net of discounts, allowances and premiums, are broken down as follows.

	2017	2016	Change	% change
Sale of energy	302,068,522	264,762,967	37,305,555	14.1%
GME energy sale	80,264,615	40,341,411	39,923,204	99.0%
Interconnector energy revenues	96,903,622	27,288,763	69,614,859	255.1%
Recovery of dispatch charges	55,822,405	46,318,898	9,503,507	20.5%
Recovery of transport charges	297,446,439	210,856,044	86,590,395	41.1%
Imbalance and CNA revenues	17,880,475	21,807,374	(3,926,899)	(18.0%)
CCC revenues	7,756,030	2,461,727	5,294,303	215.1%
Commercial costs EE	3,207,211	11,859,848	(8,652,637)	(73.0%)
Recovery of CMOR charges	1,328,532	1,015,650	312,882	30.8%
Intercompany energy revenues	5,137,803	61,823	5,075,980	8,210.5%
Revenues from electricity sales and services	867,815,654	626,774,505	241,041,149	38.5%
Gas sales	52,227,779	51,676,553	551,226	1.1%
GME gas sales	775,721	110,600	665,121	601.4%
Recovery of gas transportation charges	4,596,712	1,533,205	3,063,507	199.8%
Recovery of gas carrier charges	7,480,484	8,781,630	(1,301,146)	(14.8%)
Gas imbalance revenues	3,218,016	385,112	2,832,904	735.6%
Other gas proceeds	26,214	5,811	20,403	351.1%
Commercial costs GAS	2,150,880	3,460,231	(1,309,351)	(37.8%)
Intercompany gas revenues	325,251	2,969	322,282	10,854.9%
Revenues from sale of gas	70,801,057	65,956,111	4,844,946	7.3%
Total	938,616,711	692,730,616	245,886,095	35.5%

During the year under review revenues recorded an increase of 35.5% compared to 2016, mainly arising from higher sales of electricity as a result of the development of the portfolio of large customers and of acquisitions carried out during 2017, which strengthened the company's footprint in market segments with medium/low consumption and higher unit profit margins. The new acquisitions contributed to the results of operations as from the date of acquisition (21 November 2017). For more details, reference should be made to the Report on Operations.

2. Other revenue and income - EUR 8,033,985

Other revenue and income were composed as follows as at 31 December 2017:

	2017	2016	Change	% change
Compensation from suppliers	483,781	205,480	278,301	135.4%
Recovery of costs and charges	90,022	80,378	9,644	12.0%
Revenues from contractual penalties and reimbursements	6,228,260	7,901,070	(1,672,810)	(21.2%)
Provision of services	0	46,915	(46,915)	(100.0%)
Rentals receivable	392,092	0	392,092	ns
Reimbursement of expenses	8,302	0	8,302	ns
Other intercompany revenues	217,162	174,200	42,962	24.7%
Other income	614,366	84,322	530,044	628.6%
Total	8,033,985	8,492,365	(458,380)	(5.4%)

The item remained substantially in line with the previous year.

3. Electricity and gas purchase - EUR 882,228,527

	2017	2016	Change	% change
Electricity purchases	434,250,182	253,986,354	180,263,828	71.0%
Energy transport charges	282,152,259	209,873,503	72,278,756	34.4%
Dispatch charges	54,792,105	41,689,664	13,102,441	31.4%
Imbalance and CNA EE costs	10,144,265	2,586,648	7,557,617	292.2%
CCC charges	4,152,952	321,605	3,831,347	1.191.3%
GME energy costs	35,999,748	62,832,928	(26,833,180)	(42.7%)
GME service costs	173,003	153,889	19,114	12.4%
CTS considerations	1,517,412	1,552,707	(35,295)	(2.3%)
CMOR charges	839,011	1,376,969	(537,958)	(39.1%)
Electricity purchase and associated costs	824,020,937	574,374,267	249,646,670	43.5%
Gas purchases	44,504,694	27,922,790	16,581,904	59.4%
Gas imbalance costs	1,946,940	0	1,946,940	ns
Gas transportation charges	5,352,157	4,192,523	1,159,634	27.7%
Gas carrier charges	7,484,877	9,058,393	(1,573,516)	(17.4%)
GME gas purchases	340,118	94,200	245,918	261.1%
Gas and electricity purchase and associated costs	59,628,786	41,267,906	18,360,880	44.5%
Sundry purchases	59,120	15,717	43,403	276.2%
Inventories	(1,480,316)	(321,617)	(1,158,699)	360.3%
Total	882,228,527	615,336,273	266,892,254	43.4%

Electricity and gas purchase costs recorded an increase in the year under review compared to the previous year, connected with an increase in revenues for sales and services. For more details, reference should be made to the Report on Operations.

It should be noted that the item "Electricity purchases" includes income and costs resulting from the regularisation of derivative contracts on commodities signed by the company for the purposes of trading or hedging and settled during the year, as well as the mark-to-market of trading derivative contracts existing at 31 December 2017. More specifically, this effect can be represented as follows:

	Derivative contracts on commodities settled during the financial year	Change in FV of derivative contracts on commodities	Total
Charges	(2,231,810)	0	(2,231,810)
Income	25,508,984	19,704,360	45,213,344

In order to determine said fair value, the company used Level 2, as referred to in IFRS 13.

4. Costs for services and materials - EUR 27,925,944

Costs for services and materials refer mainly to services connected with sale activities and are composed as follows.

	2017	2016	Change	% change
Other service costs	629,466	686,272	(56,806)	(8.3%)
Insurance	13,575	0	13,575	ns
Technical consulting	662,976	1,141,993	(479,017)	(41.9%)
Legal and tax consulting	1,952,119	2,523,776	(571,657)	(22.7%)
Sundry consulting	768,992	225,286	543,706	241.3%
Auditors' fees	288,800	75,000	213,800	285.1%
Financial consulting	413,250	458,424	(45,174)	(9.9%)
Advertising and promotion expenses	3,083,351	3,774,236	(690,885)	(18.3%)

Utilities	155,063	45,756	109,307	238.9%
Postal and telephone expenses	1,028,940	2,869,076	(1,840,136)	(64.1%)
Stationery and printed materials	248,167	499,256	(251,089)	(50.3%)
Hardware and software support	1,021,629	1,084,320	(62,691)	(5.8%)
Financial expense	520,711	821,165	(300,454)	(36.6%)
Statutory Auditors' fees	68,305	53,084	15,221	28.7%
Supervisory Body's fees	24,960	24,960	0	0.0%
Factoring commission	1,129,114	394,246	734,868	186.4%
Charges on sureties	2,229,340	2,498,922	(269,582)	(10.8%)
Commission payable	6,281,181	18,519,255	(12,238,074)	(66.1%)
Call centre service costs	2,339,206	2,486,874	(147,668)	(5.9%)
Entertainment expenses	443,337	378,933	64,404	17.0%
Credit insurance	608,128	652,395	(44,267)	(6.8%)
Management costs and credit recovery	964,535	1,189,530	(224,995)	(18.9%)
Maintenance and repairs	117,390	1,605	115,785	7,213.3%
Rent expenses and associated charges	1,055,733	960,669	95,064	9.9%
Car rental	361,441	313,175	48,266	15.4%
Equipment rental	333,090	277,570	55,520	20.0%
Maintenance and repairs of third party assets	885,147	143,042	742,105	518.8%
Software licences	297,998	411,040	(113,042)	(27.5%)
Total	27,925,944	42,509,860	(14,583,916)	(34.3%)

The item recorded a significant decrease compared to the previous year, mainly due to lower costs for commissions payable. Considerable decreases were also recorded by other items, such as consulting, advertising, postal and telephone expenses, which were the object of a substantial cost optimisation.

5. Payroll and related costs - EUR 14,557,128

	2017	2016	Change	% change
Salaries and wages	7,672,598	7,212,760	459,838	6.4%
Directors' fees	2,930,000	1,330,000	1,600,000	120.3%
Social security charges	2,067,006	1,907,517	159,489	8.4%
Directors' and freelancers' social security charges	44,675	42,635	2,040	4.8%
Employee severance indemnity	540,529	500,720	39,809	8.0%
Cost of temporary contracts	13,248	102,247	(88,999)	(87.0%)
Other payroll and related costs	1,289,072	1,731,198	(442,126)	(25.5%)
Total	14,557,128	12,827,077	1,730,051	13.5%

The item recorded an increase compared to 2016 due to some non-recurring fees paid in relation to the results achieved during the year. Corporate activities were carried out with the collaboration on average of 181 employees (average of 173 employees in 2016), employed under permanent employment and work training contracts, broken down as follows:

- ◆ 15 senior managers on average;
- ◆ 36 middle managers on average;
- ◆ 124 employees on average;
- ◆ 6 blue collars on average.

Detail of employees serving at 31 December 2017 for the various categories, compared to the previous year, are also reported below.

	31.12.2017	31.12.2016
Managers	15	15
Middle managers	45	26
Employees	173	135
Total	233	176

The increase in the number of staff members was also partly attributable to the personnel working for the business units acquired in November 2017.

Provision for employee severance indemnity of EUR 540,529 takes into account the guidelines contained in IAS 19 and, during the financial year under review, the application of the said principle with the actuarial assumptions described in the subsequent note no. 35 resulted in a change in the actuarial gains reserve of EUR (89,834) booked to the statement of comprehensive income.

Other payroll and related costs include additional expenses connected with personnel management, such as those relating to the company crèche, personnel recruitment and training, the purchase of meal vouchers, the fees of the company doctor for mandatory medical check-ups and the management of cars granted as company benefits to personnel.

6. Amortisation/depreciation and impairment - EUR 9,378,409

	2017	2016	Change	% change
Amortisation and impairment of intangible assets	504,898	315,318	189,580	60.1%
Depreciation and impairment of property, plant and machinery	1,572,815	450,902	1,121,913	248.8%
Depreciation of investment property	240,206	0	240,206	ns
Impairment of other assets	1,060,490	1,490,536	(430,046)	(28.9%)
Impairment of receivables	6,000,000	7,000,000	(1,000,000)	(14.3%)
Total	9,378,409	9,256,756	121,653	1.3%

The item remained substantially in line compared to the previous year. With reference to receivables, the amount of EUR 6,000,000 refers to the impairment of the receivables in the portfolio performed by the company during the financial year under review and relates only to the provision made as a result of the evaluation of the receivables in the portfolio that have similar characteristics (cluster, unpaid ratio etc.), in line with corporate policies.

Depreciation of investment property relates to investments received following the merger of subsidiary Sacri Real Estate S.p.A..

The amount of EUR 1,060,490 represents the impairment of the following non-current assets:

- ◆ EUR 1,035,000 in relation to the quota held in Green Network Holding Rinnovabili S.r.l., recorded as a result of the presence of some indicators of impairment losses;
- ◆ EUR 25,490 relating to the impairment of cars owned by the company.

7. Other operating costs - EUR 2,050,764

	2017	2016	Change	% change
Taxes and duties	500,131	208,310	291,821	140.1%
Membership fees	98,969	62,002	36,967	59.6%
Losses on receivables	0	0	0	ns
Sanctions, fines and penalties	400,814	1,237,324	(836,510)	(67.6%)
Contribution to Antitrust Authorities	60,181	107,282	(47,101)	(43.9%)
Sundry charges	990,669	337,189	653,480	193.8%
Total	2,050,764	1,952,107	98,657	5.1%

The item "Sundry charges" mainly consists of the contribution paid to the Electricity and Gas Authority, while the remaining amount is made up of other non-deductible costs. The remaining amount of "other operating costs" is made up of taxes/duties and fines and penalties imposed on the company during the financial year under review.

8. Financial income (expense) from financial instruments measured at fair value - EUR 12,399

The item is made up of the following amounts.

	2017	2016	Change	% change
Banco BPM shares	19,091	0	19,091	ns
CARISMI shares	(52,462)	0	(52,462)	ns
Banca Marche shares	0	71,243	(71,243)	(100.0%)
Veneto Banca shares	(6,887)	(2,486,79)	2,479,692	(99.7%)
Banca Etruria shares	0	45,848	(45,848)	(100.0%)
Imprebanca securities	0	(750)	750	(100.0%)
Mutual funds / Certificates of deposit	51,818	0	51,818	ns
Bonds	839	0	839	ns
Total	12,399	(2,370,238)	2,382,637	(100.5%)

The amount of EUR 12,399 is made up of the following amounts:

- ◆ EUR 19,091 relating to Banco BPM shares, sold during the year, of which 8,997 for the release of AFS reserve;
- ◆ EUR (52,462) relating to CARISMI shares, that include EUR (16,404) for the release of AFS reserve since the company does not consider such value to be recoverable;
- ◆ EUR (6,887) in relation to the write-down of the equity shares held in Veneto Banca;
- ◆ EUR 51,818, including EUR 51,818 for the release of AFS reserve, formed in previous years, on the mutual funds sold during the year and EUR (10) related to the fair value of Certificates of deposit;
- ◆ EUR 839 relating to the Bonds of which EUR 1,530 as revaluation of Etruria and CARISMI securities and EUR (691) for the release of AFS reserve for the sale of BPER bonds.

9. Net profit (loss) from the sale of current and non-current operating assets - EUR (8,717)

	2017	2016	Change	% change
Green Hydro 2 S.r.l. shareholding	(7,147)	0	(7,147)	ns
Green Hydro 1 S.r.l. shareholding	0	(21,346)	21,346	(100.0%)
Receivables for Green Hydro 1 S.r.l. loans	(15,000)	(95,610)	80,610	(84.3%)
Shareholding in Converge S.r.l.	(16,570)	0	(16,570)	ns
Capital gains from disposals	30,000	0	30,000	ns
Total	(8,717)	(116,956)	0	ns

The item consists of the result from the measurement, in accordance with IFRS 5, concerning some non-current assets for which the company has started operations for the related disposal. The amount of EUR 15,000 relates to the value adjustment made in order to adjust the book value of the loan to subsidiary Green Hydro 1 S.r.l. at its fair value set out in the preliminary contract of sale; the amount of EUR 7,147 consists of the fair value adjustment to the value of equity investment in Green Hydro 2 S.r.l., which was sold in August 2017, while the amount of EUR 16,570 consists of the fair value adjustment to the disposal of the equity investment in Converge S.r.l.. This item also includes an amount of EUR 30,000 relating to capital gains arising from the sale of assets.

10. Financial income - EUR 2,496,319

The item may be broken down as follows:

	2017	2016	Change	% change
Capital gains on equity investments	0	0	0	ns
Income from equity investments in other companies	15,000	1,240	13,760	1,109.7%
Income from equity investments	15,000	1,240	13,760	1,109.7%
Interest on loans to subsidiaries	426,282	312,133	114,149	36.6%
Interest on loans to associated companies	27,158	28,506	(1,348)	(4.7%)
Financial income from subsidiaries	215,250	502,818	(287,568)	(57.2%)
Interest on securities	42,343	118,421	(76,078)	(64.2%)
Interest on loans to other companies	3,919	15,990	(12,071)	(75.5%)
Capital gain from sale of securities	0	1,400	(1,400)	(100.0%)
Interest income from customers	1,782,829	2,146,947	(364,118)	(17.0%)
Current account interest income	1,328	6,723	(5,395)	(80.2%)
Other financial income	1,188	1,332	(144)	(10.8%)
Financial income	2,500,297	3,134,270	(633,973)	(20.2%)
Exchange gains and losses	(18,978)	5,101	(24,079)	(472.0%)
Total	2,496,319	3,140,611	(644,292)	(20.5%)

Financial income at 31 December 2017 showed a general reduction with respect to the balance in the previous year, as a result of lower interest income from customers and of financial income from subsidiaries of EUR 215,250 relating to the income accruing to the company for the charge-back of expenses on the sureties issued in favour of subsidiary Green Network UK Plc.

Income from equity investments in other companies refers to the dividends collected from Itaipower Energia S.r.l..

11. Financial expense - EUR 4,822,311

Details of the breakdown of this item are reported below.

	2017	2016	Change	% change
Capital losses on sale of securities	0	50	(50)	(100.0%)
Bank interest expense	706,340	785,005	(78,665)	(10.0%)
Interest expense on mortgages and loans	338,974	85,445	253,529	296.7%
Interest expense on factoring	605,827	191,048	414,779	217.1%
Interest due to other lenders	1,032,883	2,002,387	(969,504)	(48.4%)
Interest expense and charges on leasing	1,726	23,341	(21,615)	(92.6%)
Credit Rating access fee	728,013	780,143	(52,130)	(6.7%)
Sundry interest and expense	1,058,489	642,804	415,685	64.7%
Interest on settlement agreements	2,781	38,258	(35,477)	(92.7%)
Interest expense on voluntary settlement	799	32	767	2,396.9%
Other financial expense	326,630	348,802	(22,172)	(6.4%)
TFR (employee severance indemnity) discounting	19,849	24,078	(4,229)	(17.6%)
Total	4,822,311	4,921,393	(99,082)	(2.0%)

This item was substantially in line with the previous year; specifically, there were an increase in sundry interest and expense and a reduction in interest to other lenders. The “sundry expense” relates to financial costs sustained for advances and credit lines granted and additional expenses for leases held by the company.

The item “Interest due to other lenders” mainly includes interest paid to suppliers for deferred payments granted by them, which reduced by about half the amount compared to the previous year.

12. Share of income/(expense) deriving from equity investments valued using the equity method - EUR 51,927

This item includes the effects of the valuation using the equity method of investments in associates.

	2017	2016	Change	% change
Solergys	128,984	(131,865)	260,849	(197.8%)
Converge	0	(1,664,497)	1,664,497	(100.0%)
US Boreale	(1,365)	0	(1,365)	ns
JMS	(75,692)	(43,010)	(32,682)	76.0%
Total	51,927	(1,839,372)	1,891,299	(102.8%)

It should be noted that the valuation of the equity investment in Solergys S.p.A. took place on the basis of the draft budget at 31 December 2017, while the valuation of equity investments in US Boreale S.r.l. and in the joint venture JMS S.r.l. took into consideration the last accounting statement available i.e. the financial statements as at 31 December 2016. For more details, reference should also be made to note no. 18.

13. Taxation - EUR (2,340,358)

Taxation for the year presents a negative balance totalling EUR 1,459,357 made up as follows:

- ◆ EUR (2,314,356) relating to current IRES;
- ◆ EUR (991,194) relating to current IRAP;
- ◆ EUR 107,408 of IRES recorded in the current financial year but relating to previous years;
- ◆ EUR 386,373 of deferred tax assets;

- ◆ EUR (335,578) of deferred tax liabilities;
- ◆ EUR 806,989 of deferred tax assets/liabilities relating to adjustments to errors for previous years.

In accordance with IAS 12, the tables of reconciliation of the theoretical and the effective tax charges connected with IRES and IRAP are reported below (values in thousands of EUR).

Pre-tax profit (loss) from the financial statements	8,347
Taxes relating to previous years	(107)
Theoretical tax charge (24%)	1,977
Timing differences taxable/deductible in subsequent years	4,899
- Default interest income for 2016 not collected	(1,519)
- Default interest expense for 2016 not paid	1,011
- Write-downs of equity investments and securities	1,211
- Allocation to provision for credit risks	4,196
Reversal of the timing differences from previous years	(2,264)
- Interest receivable before 2016 collected in 2016	121
- Interest payable on arrears before 2016 paid in 2016	(253)
- Use of provision for risks for deductible losses on loans	(2,076)
- Trademarks amortisation charge not deducted	(56)
Timing differences that will not reverse in subsequent years	(1,339)
- Expenses relating to vehicles	120
- Non-deductible taxes	33
-Contingent assets – taxes from previous years	(116)
- Non-deductible contingent liabilities	263
-Contingent liabilities – taxes from previous years	9
- IAS Employee severance indemnity (TFR) portion	(459)
- Non-deductible depreciation and amortisation	6
-Entertainment expenses	14
-Income from real properties	353
- Sanctions and fines	401
- Telephone charges	51
- Other non-deductible costs	278
- Non-deductible travel expenses and allowances	14
- Dividends from shares	(14)
- Amortisation advertising expenses	(1,981)
- Goodwill amortisation	(265)
- Deductible IRAP	(46)
Income for the year	9,643
Effective IRES tax charge (27.5%)	2,314

Difference between production value and costs as per the financial statements	28,319
Theoretical IRAP tax charge (4.82%)	1,365
Costs not relevant for the purposes of IRAP (losses on receivables, leasing interest, etc.)	3,991
Costs relevant to IRAP (depreciation, etc.)	(2,220)
Deductions for employees	(9,526)
Total	(7,755)
Value of production for the year	20,564
Effective IRAP tax charge (4.82%)	991

It should be pointed out that the recognition of IRES tax for the year of EUR 1,952,691 involved the recognition of a payable due to the SC Holding for tax consolidation, while the recognition of IRAP tax for the year amounting to EUR 991,194 entailed the recognition of a payable due to tax authorities for taxes in the year.

Explanatory notes to balance sheet items

14. Intangible fixed assets - EUR 22,629,646

Intangible fixed assets as at 31 December 2017 presented a net book value of EUR 22,629,646 and are broken down as follows:

	Software licences	Trademarks	Other intangible fixed assets	Total
Initial values at 31 December 2016	697,042	0	0	697,042
Changes at 31 December 2017				
- acquisitions	527,326	0	0	527,326
- disposals	0	0	0	0
- increases from acquisitions/mergers	1,092,995	8,378,429	12,438,752	21,910,176
- amortisation	(501,858)	(57)	(2,983)	(504,898)
- reclassifications	0	0	0	0
- write-downs	0	0	0	0
Total changes	1,118,463	8,378,372	12,435,769	21,932,604
Values at 31 December 2017	1,815,505	8,378,372	12,435,769	22,629,646
Historical cost	7,194,651	8,382,123	12,532,982	28,109,756
Accumulated amortisation at 31 December 2016	(2,119,585)	0	0	(2,119,585)
Accumulated amortisation from acquisitions/mergers	(2,757,703)	(3,694)	(94,230)	(2,855,627)
Amortisation in the year	(501,858)	(57)	(2,983)	(504,898)
Accumulated amortisation at 31 December 2017	(5,379,146)	(3,751)	(97,213)	(5,480,110)
Values at 31 December 2017	1,815,505	8,378,372	12,435,769	22,629,646

This item increased by EUR 21,932,604, mainly as a result of the acquisitions and mergers that took place during the year.

The purchases made during the year, equal to EUR 527,326 related to the software licences used by the company, involving the software used to manage accounting, treasury/finance and customers, which were also implemented during the year, as a result of the aforesaid corporate acquisitions.

The amount of EUR 8,378,429 relating to trademarks concerns the allocation of the purchase price of the business units acquired during the year.

Other intangible fixed assets mainly include the customer relationships relating to VAT customers for EUR 6,818,629 and to "domestic" customers for EUR 5,608,209, arising from the allocation of higher values relating to the two business units acquired during the year.

The decreases arose from the process of amortisation calculated on the basis of the useful life of the assets estimated by the company.

15. Goodwill - EUR 26,302,025

The value of EUR 26,302,025 relates to higher value of acquisitions of business units that took place during the year, which is not attributable to other balance sheet items (trademarks and customer lists). The acquisitions reported showed in fact an improvement in the company's positioning on the market and the creation of value through production and sales synergies for the Company.

The balance of goodwill was tested at the level of CGU, which is identified as the unit generating independent cash flows to which goodwill relates and which is monitored for internal management purposes on the part of the company. Specifically, the cash generating unit has been identified, which:

- ◆ represents the minimum level within the business to which goodwill relates and based on which it is monitored for management control purposes;
- ◆ is expected to benefit from the aggregation synergies;
- ◆ can be reported as a set of clear, reliable and measurable information flows.

The CGU's recoverable value has been estimated according to criteria complying with the principle of prudence and the relevant accounting standards (IAS 36), as well as in accordance with the valuation practices required by IFRS. Specifically, the recoverable value intended as the "value in use" of the CGU has been identified by discounting operating cash flows (DCF Model) extrapolated from economic and financial plans for a reference period from 2018 to 2022. Cash flow forecasts have been determined by using, in particular, operating cash flows, and considering, for terminal value, a «normalised» cash flow, without any long-term growth factor. The rate used to discount cash flows, equal to 9.9%, has been determined on the basis of market information of cost of money and specific risks of the relevant CGU (Weighted Average Cost of Capital, WACC). Testing has shown that the CGU's recoverable value is higher than net invested capital (including goodwill). Therefore, there was no need to adjust the goodwill value recognised in the accounts at the end of the abovementioned impairment test.

16. Property, plant and machinery - EUR 3,816,026

Property, plant and machinery as at 31 December 2017 presented a net book value of EUR 3,816,026 and is broken down as follows:

	Plant and machinery	Other assets	Fixed assets in progress	Total
Initial values at 31 December 2016	3,373	1,326,184	2,200,000	3,529,557
Changes at 31 December 2017				
- acquisitions	0	527,240	0	527,240
- disposals	0	(25,490)	0	(25,490)
- increases from acquisitions/ mergers	287,324	1,070,210	0	1,357,534
- depreciation	(100,491)	(1,472,324)	0	(1,572,815)
- reclassifications	370,000	1,830,000	(2,200,000)	0
- write-downs	0	0	0	0
Total changes	556,833	1,929,636	(2,200,000)	286,469
Values at 31 December 2017	560,206	3,255,820	0	3,816,026
Historical cost	832,882	9,879,903	0	10,712,785
Accumulated depreciation at 31 December 2016	(84,777)	(3,046,498)	0	(3,131,275)
Accumulated depreciation from acquisitions/ mergers	(87,408)	(2,105,261)	0	(2,192,669)
Depreciation in the year	(100,491)	(1,472,324)	0	(1,572,815)
Accumulated depreciation at 31 December 2017	(272,676)	(6,624,083)	0	(6,896,759)
Values at 31 December 2017	560,206	3,255,820	0	3,816,026

The item increased by EUR 286,469, broken down as follows:

	Value as at 31.12.2016	Acquisitions	Disposals	Increases from acquisitions/ mergers	Depreciation	Reclassifications	31.12.2017
- Leasehold improvements	171,970	170,500	0	0	(231,649)	200,000	310,821
- Office furniture and furnishings	206,406	151,950	0	819,211	(984,279)	1,350,000	1,543,288
- Non-depreciated furniture and furnishings	593,599	59,828	0	0	0	0	653,427

- Mobile phones	8,347	6,993	0	1,193	(10,245)	0	6,288
- Sundry equipment	4,466	2,852	0	0	(4,034)	0	3,284
- Cars	36,535	55,482	(25,490)	2,917	(21,267)	0	48,177
- Machinery for energy cert.	3,373	0	0	287,324	(100,491)	370,000	560,206
- Electronic office machines	304,861	79,635	0	246,889	(220,850)	280,000	690,535
- Fixed assets in progress	2,200,000	0	0	0	0	(2,200,000)	0
Total	3,529,557	527,240	(25,490)	1,357,534	(1,572,815)	0	3,816,026

The overall increase mainly arose from acquisitions and mergers that took place during the year and from the purchases made during the year, equal to EUR 527,240. The decreases mainly arose from the depreciation process in progress, as calculated based on the assets' useful life estimated by the company.

The amount of the fixed assets in progress, which had reported a balance of EUR 2,200,000 in the previous year, has been reclassified on the basis of the assets' entry into service that took place during the year, as stated below:

- ◆ fixtures and furnishings for EUR 1,350,000;
- ◆ specific plants and machinery for EUR 370,000;
- ◆ office equipment for EUR 280,000;
- ◆ leasehold improvements for EUR 200,000.

In order to purchase said assets, excluding leasehold improvements, the company entered into a finance lease agreement with Alba Leasing S.p.A. on 29 December 2016 as a result of which the overall value of the assets in progress i.e. fixtures and furnishings, specific plants and office equipment (EUR 2,000,000) was booked to assets and the corresponding debt booked to liabilities. Below are the main features of the agreement.

Contract 01098378/001 Alba Leasing S.p.A.

Presumed cost	2,000,000	Total consideration	2,050,778
Months	60	Rate	2.11%
Anticipated fee	700,000	Redemption	20,000
Periodic fee	22,895	Preliminary investigations	300
Fee months	59	Indexing	actual 3m Euribor
Monthly instalment	22,895	Annual instalments in advance	274,735

17. Investment property - EUR 8,014,167

The item includes the value of the properties owned by the Company, held for investment purposes.

	31.12.2017	31.12.2016	Change
Building in Terracina – San Felice	1,713,422	0	1,713,422
Building in Terni - Via Bramante	136,396	0	136,396
Building in Rome - Paisiello	5,382,231	0	5,382,231
Building in Rome - Via Cavalieri	782,118	0	782,118
	8,014,167	0	8,014,167

It should be noted that these properties were acquired during 2017 as a result of the merger of subsidiary Sacri Real Estate S.p.A..

Below are the details of each asset.

	Land	Historical cost	Accumulated depreciation 2016	NBV 2016	Changes in the year	Deprec. 2017	Accumulated depreciation 2017	NBV 2017	Fair value 31.12.2017
Rome - Paisiello 1	677,845	4,415,400	(1,066,411)	4,026,834	0	132,462	(1,198,873)	3,894,372	3,900,000
Rome - Cavalieri	0	1,000,572	(188,436)	812,135	0	30,017	(218,453)	782,118	782,200
Terni	37,074	151,996	(48,114)	140,956	0	4,560	(52,674)	136,396	169,000
Terracina	178,000	1,607,773	(48,234)	1,737,539	0	24,117	(72,350)	1,713,422	1,715,000
Rome - Paisiello 3 -4	0	1,635,009	(98,100)	1,536,909	0	49,050	(147,151)	1,487,859	1,490,000
	892,919	8,810,750	(1,449,295)	8,254,373	0	240,206	(1,689,501)	8,014,167	

The fair value of properties was determined by an independent expert, appointed by the company, based on the values contained in the database of property prices of the Real Estate Market Observatory of the Italian Revenue Agency. The values taken from the appraisals did not reveal any impairment loss.

In relation to the properties under review, the information required by IAS 40 is reported in the table below.

Description	31.12.2017
Rentals receivable	392,092
Utility costs	(7,118)
Maintenance costs	(103,217)
Insurance costs	(2,212)
Commission payable	(9,054)
Registration tax	(1,341)
Property taxes and duties (IMU [municipal property tax], TASI [taxes on indivisible services], TARI [waste tax])	(32,979)
Condominium expenses	(4,905)
Total	231,266

18. Equity investments - EUR 18,158,078

The item includes the value of equity investments held by the company in subsidiaries, associated companies and joint ventures and in other companies as detailed below.

	31.12.2017	31.12.2016	Change
Green Wind 1 S.r.l.	0	0	0
Green Hydro 2 S.r.l.	0	21,022	-21,022
Sacri Re S.p.A.	0	770,000	-770,000
Green Network Trading UK PLC	5,097,025	1,097,025	4,000,000
Green Network Holding Rinnovabili S.r.l.	6,665,350	7,700,350	-1,035,000
Solcap Green S.r.l.	2,676,000	2,676,000	0
Green Wind 2 S.r.l.	271,764	254,435	17,329
Rena Energia S.r.l.	112,957	36,425	76,532
Le Fate Turchine S.r.l.	106,298	106,298	0
Le Fate Turchine 2 S.r.l.	491,150	491,150	0
Biogas Energy Società Agricola S.r.l.	1,750,324	1,750,324	0
Energrid S.r.l.	10,000	0	10,000
Equity investments in subsidiaries	17,180,869	14,903,029	2,277,840
Converge S.r.l.	0	1,916,570	-1,916,570
Sòlergys S.p.A.	320,845	191,862	128,983
JMS S.r.l.	267,620	343,312	-75,692
US Boreale S.r.l.	378,744	0	378,744
Equity investments in associated companies and joint ventures	967,209	2,451,744	-1,484,535

Itaipower Energia S.r.l.	10,000	10,000	0
Equity investments in other companies	10,000	10,000	0
TOTAL EQUITY INVESTMENTS	18,158,078	17,364,773	793,305

For the purposes of these financial statements, equity investments in subsidiaries are valued at cost, adjusted for any impairment losses. The balance at 31 December 2017 showed an overall increase of EUR 2,277,840; this change is due to the net effect of decreases of EUR 1,826,022 and a positive change of EUR 4,103,862. These changes are reported below:

- ◆ Disposal of quotas held in Green Hydro 2, which was completed in August 2017;
- ◆ Merger by incorporation of Sacri Real Estate S.p.A. into Green Network S.p.A. with tax and statutory effects running from 1 January 2017;
- ◆ Increase of the equity investment in Green Network UK Plc following the waiver of the shareholder loans on the part of Green Network S.p.A. for EUR 4,000,000 in May 2017;
- ◆ Increase of value of the equity investment in Green Wind 2 S.r.l. following the balance of losses resulting from the financial statements at 31 December 2016;
- ◆ Increase of value of the equity investment in Rena Energia S.r.l. following the waiver of the quotaholder loan for the coverage of the share of 2016 loss pertaining to Green Network S.p.A.;
- ◆ Establishment of Energrid S.r.l. in November 2017, with a quota capital equal to EUR 10,000, fully subscribed by the sole quotaholder Green Network S.p.A.;
- ◆ Write-down of EUR 1,035,000 of the value of the equity investment held in Green Network Holding Rinnovabili S.r.l., carried out to take account of the impairment indicators known at the date of this Report.

Details of the item are reported below, with the main accounting data of the subsidiaries and the associated percentage stakes. For the purposes of the table below, the reporting packages of the subsidiaries drafted in compliance with IAS/IFRS were considered; exception is made for Green Wind 1 S.r.l., for which the reporting package is not prepared since it is not consolidated and, therefore, the equity was considered which was resulting from the financial statements prepared according to Italian GAAPs:

Company	Registered Office	Share Capital	Shareholders' equity	Profit (loss) for the year	% equity investment	Group net equity	Carrying amount
Green Network Trading UK PLC *	London	5,097,024	1,511,789	942,735	100.00%	1,511,789	5,097,025
Green Network Holding Rinnovabili S.r.l.	Rome	100,000	7,977,994	17,137	100.00%	7,977,994	6,665,350
Solcap Green S.r.l.	Rome	2,671,000	3,110,098	78,497	100.00%	3,110,098	2,676,000
Green Wind 1 S.r.l.	Rome	20,000	(177,136)	(7,380)	51.00%	(90,339)	0
Green Wind 2 S.r.l.	Rome	10,000	288,002	107,514	91.07%	262,283	271,765
Energrid S.r.l.	Rome	10,000	76,176	74,844	100.00%	76,176	10,000
Rena Energia S.r.l.	Rome	20,000	(350,493)	(79,311)	57.00%	(199,781)	112,957
Biogas Energy Società Agricola S.r.l.	Rome	20,000	90,819	(126,375)	74.00%	67,206	1,750,324
Le Fate Turchine S.r.l.	Rome	110,000	(5,539)	(68,944)	80.00%	(4,431)	106,298
Le Fate Turchine 2 S.r.l.	Rome	100,000	81,832	10,745	100.00%	81,832	491,150

* Green Network UK Plc owns 100% of Green Network Energy Ltd. whose equity value at 31.12.2017 as per the financial statements is EUR (8,234,386).

With reference to the subsidiaries that have an equity value that is negative or less than the value of the cost of the shareholding, the differential is regarded as recoverable on the basis of the impairment

test (IAS 36) carried out by using the “Discounted Cash Flows (DCF)” arising from the business plans, as discounted on the basis of specific WACCs for each company. A definite useful life correlated to the incentive term was considered for project companies (Biogas Energy Società Agricola S.r.l., Rena Energia S.r.l., Green Network Holding Rinnovabili S.r.l., Solcap Green S.r.l., Green Wind 2 S.r.l.). More specifically, note the following:

- ◆ Green Network UK Plc is an electricity trader operating in European markets. During financial year 2016, 100% control was acquired over Green Network Energy Ltd., which had reported, as early as in 2017, a substantial increase in the activities to sell electricity and gas on the UK market and has the objective of further expanding the business in the subsequently years. In view of this and the analysis of the companies' business plans at the date of this Report, impairment losses for said equity investment were not required;
- ◆ Green Wind 1 S.r.l. did not obtain the issuing of the Single Authorisation from the Puglia Region required to start construction of the planned wind farm and therefore start company activities. The construction of the wind farm was part of an agreement for the purchase of the company division which required as a condition subsequent and as grounds for invalidity of said agreement the issuance, by 31 December 2016, of the Single Authorisation. Said condition having been fulfilled, the contract has been terminated. Following these events, the company was put into liquidation on 19 July 2017. Green Network S.p.A. has fully written-down the value of the equity investment in Green Wind 1 S.r.l.;
- ◆ Rena Energia S.r.l. produces electricity through a biomass plant with a nominal electrical capacity of around 1 MW. Production in the year under review increased from 7,948 MWh in 2016 to 8,176 MWh in 2017, thanks to an improvement in operating processes and to the use of raw materials with superior features. An analysis of the business plan and an assessment based on DCF methodology revealed no loss in value of the equity investment in the company;
- ◆ Biogas Energy Società Agricola S.r.l. produces electricity through a biogas plant with a nominal electrical capacity of around 1 MW. Production for the year under review increased from 3,746 MWh in 2016 to 7,027 MWh in 2017, due to the fact that the plant worked with a nominal capacity of 1MW as from April 2017 following the completion of the same during the previous year. An analysis of the business plan and an assessment based on DCF methodology revealed no loss in value of the equity investment in the company;
- ◆ Le Fate Turchine S.r.l. carries out agency activities in service of households to select qualified personnel in the childcare and babyhood sector. During the year 2017 the company continued the activities set out in the corporate purpose, extending the range of services offered on the basis of a plan for the relaunch of activities started in the previous years;
- ◆ During financial year 2017, revenues for Le Fate Turchine 2 S.r.l. grew by 27% compared to the previous year, thanks to the higher number of admissions for the 2017 – 2018 school year, as well as to a higher number of events organised at the facility and to the various corporate activities such as language courses and theatre and music lessons.

It should be noted that for the company Green Network Holding Rinnovabili S.r.l., Green Network S.p.A. has a current contractual commitment to the minority shareholder for the purchase of all shares held by the latter. Therefore the equity investment was valued as 100% owned by Green Network S.p.A., while recognising the corresponding payable due to the minority quotaholder Simest.

Investments in associates include the measurement using the equity method of the equity investments in the following companies:

Company	Registered Office	Share Capital	Shareholders' equity	Profit (loss) for the year	% equity investment	Book value (accrued Equity)
Sòlergys S.p.A.	Rome	120,000	654,786	280,045	49.00%	320,845
US Boreale	Rome	10,200	1,136,345	(4,094)	33.33%	378,744

With reference to the equity investment in Sòlergys S.p.A., the value of the equity investment increased by EUR 128,984 in order to acknowledge the corresponding fraction of shareholders' equity as per the most recent accounting statement available (31 December 2017).

With reference to the equity investment in US Boreale S.r.l. (formerly associated company of Sacri Real Estate S.p.A.) it should be noted that as at the date of these Financial Statements, the financial statements at 31 December 2017 had not been transmitted and the balance-sheet value reflects the valuation using the equity method based on the values at 31 December 2016.

The quota held in Converge S.r.l. (associated company) has been reclassified, for the purposes of this Report, to "Non-current assets held for sale", since the quota held in this company was sold in March 2018.

Investments in associates, valued at equity, include the value of EUR 267,620 relating to the 50% equity investment in a joint venture having as its object a photovoltaic system.

Company	Registered Office	Share Capital	Shareholders' equity	Profit (loss) for the year	% equity investment	Book value
JMS S.r.l.	Brescia	50,000	535,239	(151,385)	50.00%	267,620

The information shown in the table above relates to the most recent statements available, i.e. the JML S.r.l. financial statements approved at 31 December 2016.

Investments in other companies, amounting to EUR 10,000, refer to the equity investment held by the company in Italtop Energia S.r.l., for which a dividend of EUR 15,000 has been accounted for.

19. Receivables from parent companies, subsidiaries, associates and joint ventures - EUR 19,674,586

The item includes the non-current receivables due to the company from subsidiaries, parent companies and associated companies.

	31.12.2017	31.12.2016	Change
Receivables due from subsidiaries	14,940,966	22,700,999	(7,760,033)
<i>of which for loans</i>	<i>14,940,966</i>	<i>22,592,999</i>	<i>(7,652,033)</i>
<i>of which other receivables</i>	<i>0</i>	<i>108,000</i>	<i>(108,000)</i>
Receivables due from associated companies	1,430,085	1,420,085	10,000
<i>of which for loans</i>	<i>1,430,085</i>	<i>1,420,085</i>	<i>10,000</i>
<i>of which other receivables</i>	<i>0</i>	<i>0</i>	<i>0</i>
Receivables due from holding companies	3,303,535	3,454,692	(151,157)
<i>of which for loans</i>	<i>3,286,037</i>	<i>3,437,194</i>	<i>(151,157)</i>
<i>of which other receivables</i>	<i>17,497</i>	<i>17,497</i>	<i>0</i>
Total	19,674,586	27,575,776	(7,901,190)

Receivables from subsidiaries refer to receivables for loans, as detailed in the table below.

Counterparty	Loan	31/12/2016	Increases	Decreases	Write-downs / Reclassification s	31/12/2017
Sacri Re S.p.A.	Non-interest bearing	6,263,379	550,000	(6,813,379)	0	0
Green Network UK PIC	2%	6,960,343	2,349,657	(4,000,000)	0	5,310,000
Green Network Holding Rinnovabili S.r.L.	1.75%	3,961,141	0	(142,000)	0	3,819,141
Green Hydro 2 S.r.L.	5%	64,779	0	(64,779)	0	0
Green Wind 1 S.r.L.*	Non-interest bearing	91,084	20,000	0	0	111,084
Green Wind 2 S.r.L.	5%	745,730	0	0	0	745,730
Rena Energia S.r.L.	1.75%	2,161,361	0	(76,532)	0	2,084,829
Solcap Green S.r.L.	5%	277,539	50,000	0	0	327,539
ATA Energia Società Agricola S.r.L.	5%	2,067,643	475,000	0	0	2,542,643
TOTAL DUE FROM SUBSIDIARIES		22,592,999	3,444,657	(11,096,690)	0	14,940,966

* Loan became non-interest bearing from 1 January 2017

In the year under review, additional loans of EUR 3,444,657 were disbursed, and total decreases of EUR 11,096,690 were recorded, which related for EUR 6,813,379 to the elimination of the loan of Sacri Real Estate S.p.A. following its merger by incorporation, for EUR 4,000,000 to the waiver of the loan to Green Network UK Plc, for EUR 76,532 to the waiver of the loan to Rena Energia S.r.L., for EUR 64,779 to a reduction in receivables from Green Hydro 2 S.r.L. following the disposal of the quotas held in the company in August 2017 and for the remaining amount to the return of loans on the part of subsidiaries.

The interest-bearing loans led to the recognition of interest income of EUR 426,282 in the income statement.

The item relating to receivables from associated companies is made up of loans to Sòlerys S.p.A., unchanged with respect to the previous year, and to US Boreale S.r.l., obtained following the merger of Sacri Real Estate S.p.A.

Counterparty	Loan	31/12/2016	Increases	Decreases	Write-downs / Reclassifications	31/12/2017
Solèrgys S.p.A.	Indexed to Euribor	1,420,085	0	0	0	1,420,085
Socio US Borelae on account of non-interest bearing loan	Non-interest bearing	0	10,000	0	0	10,000
TOTAL DUE FROM ASSOCIATED COMPANIES		1,420,085	10,000	0	0	1,430,085

The loan to US Boreale S.r.l. is non-interest bearing while the loan to Solèrgys S.p.A. is interest-bearing and the interest accrued during the year under review totalled EUR 27,158.

Receivables from parent companies include a receivable for a loan granted to SC Holding S.r.l.. During the financial year under review the decrease related to the consideration for the acquisition from SC Holding S.r.l. of total shares of Sacri Real Estate S.p.A..

Counterparty	Loan	31/12/2016	Increases	Decreases	Write-downs / Reclassifications	31/12/2017
SC Holding S.r.l.	Non-interest bearing	3,437,194	0	151,157	0	3,286,037
TOTAL DUE FROM PARENT COMPANIES		3,437,194	0	151,157	0	3,286,037

Other receivables from parent companies, equal to EUR 17,497, relate to receivables arising from tax consolidation.

20. Deferred tax assets - EUR 6,001,288

The item includes receivables for prepaid taxes that will be recoverable in subsequent years.

	31.12.2017	31.12.2016	Change
Deferred tax assets	6,001,288	5,775,847	(225,441)
Total	6,001,288	5,775,847	(225,441)

The timing differences that led to the recognition of prepaid taxes are reported hereunder.

	31.12.2017
Prepaid taxes on interest expense	702,312
Prepaid taxes on trademarks	165,790
Prepaid taxes on advertising expenses	517,379
Prepaid taxes from first-time application of IAS/IFRS	1,244,173
Prepaid taxes from derivatives revaluation reserves and from AFS reserves	1,172,439
Prepaid taxes from IAS/IFRS adjustment	(600,103)
Prepaid taxes on non-deductible allowance for doubtful receivables	2,173,471
Prepaid taxes on provision for risks	0
Prepaid taxes on goodwill - former GN L&G	649,607
Prepaid taxes on write-down of fixed assets	0
Prepaid taxes on write-down of equity investments	0
Prepaid taxes from adjustment at the new IRES tax rate of 24%	(23,780)
Prepaid taxes on write-down of inventories	0
Total	6,001,288

21. Tax credits - EUR 5,084,332

	31.12.2017	31.12.2016	Change
Receivables for UTF (finance office)	877,938	920,458	(42,520)
VAT receivables	3,991,313	3,914,599	76,714
Receivables for tax disputes	120,370	120,370	0
Receivables for refund requests	51,276	51,276	0
Other tax receivables due after	43,435	43,435	0
Total	5,084,332	5,050,138	34,194

The item is composed mainly of VAT receivables that will be recovered through the issuance of special credit notes at the end of the insolvency proceedings in which some of the company's customers are involved, receivables for UTF taxes in the amount of EUR 877,938 and EUR 120,370 in receivables deriving from an ongoing tax dispute with the Tax Authorities in relation to the payment of a tax bill.

22. Other non-current assets - EUR 9,179,861

This item is mainly made up of receivables for security deposits granted for the performance of corporate activities.

	31.12.2017	31.12.2016	Change
Receivables for security deposits	7,761,440	480,381	7,281,059
Receivables for grants pursuant to Law No. 388/2000	100,000	100,000	0
Other receivables	1,318,421	37,500	1,280,921
Total	9,179,861	617,881	8,561,980

The increase in this item is attributable to the amount of security deposits of the Energrid business unit acquired during the year.

Other non-current receivables include the amount of fees accrued in financial years commencing after 31 December 2018.

23. Inventories - EUR 1,801,933

	31.12.2017	31.12.2016	Change
Inventories of finished products and goods for resale	1,801,933	321,617	1,480,316
Total	1,801,933	321,617	1,480,316

The value of EUR 1,801,933 relating to inventories of finished products refers to the value of the gas stored as at 31 December 2017 at special sites and not sold at the end of the financial year. The inventories were valued using the weighted average cost method compared to the net realisable value.

24. Trade-related receivables - EUR 368,153,536

Details of the item are reported below.

	31.12.2017	31.12.2016	Change
Trade receivables from customers	216,533,045	137,082,758	79,450,287
Allowance for doubtful receivables	(30,663,424)	(10,269,605)	(20,393,819)
Customers for invoices to be issued	162,115,464	74,337,861	87,777,603
Credit notes to be issued	(13,142,808)	(5,511,757)	(7,631,051)
Bank, subject to collection	33,311,259	8,774,806	24,536,453
Total	368,153,536	204,414,063	163,739,473

Receivables were adjusted in order to take account of impairment as a result of the impairment tests performed in compliance with international accounting standards. Details of their changes in the year are shown below:

	Amounts
Balance at 31 December 2016	10,269,605
Allowance for doubtful receivables arising from mergers/acquisitions	20,015,606
Uses during the year	(5,621,787)
Provision for the year	6,000,000
Total	30,663,424

The allowance was used to cover the losses on receivables recorded in 2017 and for which the company had already estimated losses in previous years. The provision of EUR 6,000,000 was made as a result of the impairment process carried out by the company on a portfolio of customers homogeneous in nature and characteristics.

It should be noted that as at the date of this Report the company had collected an amount that was little higher than EUR 99 million of the receivables for issued invoices outstanding at 31 December 2017.

With reference to receivables from customers, it is noted that Green Network S.p.A. has outstanding net loans due from Tradecom S.p.A., subject to insolvency proceedings from November 2014 (bankruptcy), for a net total amount of approximately EUR 15.7 million. Based on the documentation available at the date of this Report, the company, with the support of its independent legal advisors, is reasonably confident of the successful outcome of the recovery of the said receivable.

The company once again confirmed an insurance policy in 2017 which can be renewed every year, with Euler Hermes Italia S.p.A., to cover the risk on trade-related receivables. The total insured amount of receivables is equal to a limit of liability of approximately EUR 108 million.

“Receivables for invoices to be issued” represent the allocations for services rendered at the date of this Report, while “Credit notes to be issued” are applied as direct decreases in receivables, as they relate directly to this item. The item relating to ‘banks, subject to collection’ includes all receivables presented for collection to banks based on the ‘sbf [subject to collection]’ clause, and which had still not been collected at the date of this report.

It is also noted that, as guarantee for several trade-related receivables, the company received bank sureties totalling EUR 5,000,000 for the supply of electricity and gas from the customer Riva Acciaio S.p.A..

25. Receivables from parent companies, subsidiaries, associates and joint ventures - EUR 44,830,298

Details of the item are reported below.

	31.12.2017	31.12.2016	Change
Biogas Energy Società Agricola S.r.l.	432,316	448,426	(16,110)
Sacri Re S.p.A.	0	28,247	(28,247)
Le Fate Turchine S.r.l.	15,529	7,566	7,963
Le Fate Turchine 2 S.r.l.	2,145	47,675	(45,530)
Solcap Green S.r.l.	104,738	82,503	22,235
Green Wind 1 S.r.l.	5,809	2,276	3,533
Green Wind 2 S.r.l.	94,924	100,314	(5,390)
Green Hydro 1 S.r.l.	107,919	56,102	51,817
Green Hydro 2 S.r.l.	0	22,632	(22,632)
Rena Energia S.r.l.	403,111	539,468	(136,357)
Green Network Trading UK PIC	1,692,705	632,296	1,060,409
Green Network Holding Rinnovabili S.r.l.	39,244	183,037	(143,793)
Energrid Srl	13,803,513	0	13,803,513
Spectrum Tech S.r.l.	29,983	17,907	12,076
Receivables due from subsidiaries	16,731,936	2,168,449	14,563,487
Sòlerys S.p.A.	419,210	325,053	94,157
US Boreale	12	0	12
Receivables due from associated companies	419,222	325,053	94,169
JMS S.r.l.	7,213,660	9,287,287	(2,073,627)
Receivables due from Joint Ventures	7,213,660	9,287,287	(2,073,627)
SC Holding S.r.l.	20,465,480	9,101,320	11,364,160
Receivables due from parent companies	20,465,480	9,101,320	11,364,160
Total	44,830,298	20,882,109	23,948,189

Receivables due from subsidiaries and associated companies derive mainly from commercial transactions and also include receivables for interest earned on existing interest-bearing shareholder loans toward some of the companies in the group; receivables due from the parent company SC

Holding S.r.l. are mainly related to tax consolidation and, to a lesser extent, to receivables for services provided to the holding company itself.

Receivables due from JMS S.r.l., equal to the payables referred to in note 41 below, derive from commercial relations linked to energy trading activities.

26. Loans to banks and other financial institutions - EUR 10,258,914

The item includes loans to banks and other financial institutions connected with trade-related receivables submitted for discount and factoring which had still not been collected at the reporting date and the amount of time or pledged bank deposits.

	31.12.2017	31.12.2016	Change
Receivables due from factoring companies	2,839,077	1,723,563	1,115,514
Time bank deposits	7,419,837	8,744,807	(1,324,970)
Total	10,258,914	10,468,370	(209,456)

27. Tax credits - EUR 22,826,471

Tax credits are broken down as follows.

	31.12.2017	31.12.2016	Change
Receivables due from the Tax Authorities for direct taxes	35,292	435,163	(399,871)
Receivables for UTF taxes	16,496,286	7,273,536	9,222,750
Receivables due from tax authorities for VAT	5,131,454	12,631	5,118,823
Other tax credits	1,163,439	1,121,404	42,035
Total	22,826,471	8,842,734	13,983,737

The increase was mainly attributable to the receivables claimed from the tax authorities for advances paid on excise duties due on gas and electricity consumption and to the VAT receivables arising from the Energrid business unit acquired.

28. Derivatives – EUR 29,971,294

The item includes the positive fair value of the derivative financial instruments that the company holds both for trading purposes and for hedging purposes in relation to the purchase of commodities.

	31.12.2017	31.12.2016	Change
Derivative financial instruments	29,971,294	8,582,781	21,388,513
Total	29,971,294	8,582,781	21,388,513

This is mainly OTC derivatives and contracts for differences (entered into based on ISDA standards) for which the fair value was determined by applying level two as provided for by IFRS 13. More specifically, the amount of EUR 29,971,294 is made up of EUR 3,343,671 relating to the derivative financial instruments held by the company for hedging purposes in line with the guidelines contained in IAS 39 on hedge accounting, the change in fair value of which has been stated in the cash hedging reserve, and EUR 26,627,623 relating to the derivative financial instruments held by the company for trading purposes or that do not meet the conditions for being classified as hedging instruments, the change in fair value of which has been booked directly to the income statement.

29. Financial assets available for sale - EUR 3,964,282

The item includes the fair value of non-derivative financial instruments that the company has classified in the “AFS” portfolio as detailed below.

	31.12.2017	31.12.2016	Change
- Certificates of deposit / Savings vouchers	1,499,990	5,900,000	(4,400,010)
- Bonds	1,464,083	1,109,183	354,900
- Investment funds	0	1,177,301	(1,177,301)
- Other securities	1,000,209	88,316	911,893
Total	3,964,282	8,274,800	(4,310,518)

With reference to the certificates of deposit and bond securities, the table below shows the changes with respect to the previous year.

	Certificates of deposit	Bonds
Value as at 31.12.2016	5,900,000	1,109,183
Investments	0	0
Increases from acquisitions/ mergers	0	500,000
Disinvestments	(4,400,000)	(159,781)
Fair value adjustment	(10)	14,681
Total	1,499,990	1,464,083

The increase of EUR 500,000 relating to Bonds refers to the inclusion of Bonds owned by the formerly Tradeinv business unit acquired. The disinvestment of EUR 159,781 relates to the sale of BPER bonds.

The sales of BPM Certificates of deposit during the year were equal to EUR 3,900,000 while the sales of Savings vouchers of Banca Marche were equal to EUR 500,000.

Finally, the item “other securities” is made up of equity securities and Government bonds which were previously owned by the formerly Tradeinv business unit acquired. The net positive change of EUR 911,893 recorded in the financial year is due to the inclusion of the aforesaid Government bonds, as well as to the sale of Banco BPM shares and to the adjustment to the value of the equity securities at the relative fair value at 31 December 2017.

	31.12.2017	31.12.2016	Change
- Banco BPM shares	0	43,282	(43,282)
- Carismi shares	2,091	38,148	(36,057)
- Veneto Banca shares	0	6,886	(6,886)
- Government bonds	998,118	0	998,118
Total	1,000,209	88,316	911,893

The change in the fair value of the financial instruments in the portfolio, net of the amount already recognised in the income statement, was deferred to the related AFS reserve of shareholders' equity, which shows the related change.

	Amount
Value as at 31.12.2016	32,216
Deduction of fair value of investment funds sold	(51,828)
Deduction of fair value of Banco BPM shares sold	(8,997)
Deduction of fair value of Carismi shares	16,404
Deduction of fair value of BPER Bonds sold	691

Change in fair value of Bonds	13,151
Change in fair value of Government bonds	36,578
Deferred tax effect	(1,729)
Value as at 31.12.2017	36,486

It should be noted that, during 2017, the company accounted for a reduction in the value of securities held in Carismi, regarded as “prolonged and continued”, through profit or loss, in the item “Financial income (expense) from financial instruments measured at fair value”, since the related stock had reported a continued negative trend. This recognition was made according to IAS 39: “when a decline in the fair value of an available-for-sale financial asset has been recognised in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in equity shall be reclassified from equity to profit or loss even though the financial asset has not been derecognised”.

30. Other current assets – EUR 13,457,878

The item is broken down as follows:

	31.12.2017	31.12.2016	Change
Suppliers - energy advances	100,000	100,000	0
Suppliers - advance account	10,964,459	10,508,090	456,369
Other receivables due from employees	20,456	2,210	18,246
Other receivables	2,372,963	143,952	2,229,011
Total	13,457,878	10,754,252	2,703,626

The item relating to suppliers - advance account, up over the previous year, can be represented as follows.

	31.12.2017	31.12.2016	Change
Charges on sureties	1,768,414	820,508	947,906
Insurance	26,617	530,179	(503,562)
Interest expense on settlement agreements	0	38	(38)
Insurance and car expenses	4,823	20,673	(15,850)
Leasing	0	26,986	(26,986)
Equipment rental	77,473	155,452	(77,979)
Advertising expenses	0	9,918	(9,918)
Commissions	8,040,399	7,993,718	46,681
Sales consulting	73,828	37,362	36,466
Financial consulting	0	0	0
Sundry consulting	53,933	29,485	24,448
Software licences	155,203	138,449	16,754
Costs for the provision of services	9,615	54,697	(45,082)
Registration tax	0	0	0
Rentals payable	101,087	189,196	(88,109)
Bank charges	10	372	(362)
Proceeds from derivatives	0	487,105	(487,105)
Other	653,058	13,952	639,106
	10,964,459	10,508,090	456,369

As regards this item, the most significant part was composed of advances recognised for commissions directly related to the company’s business and sales strategy.

The item relating to other receivables increased during the year, which was mainly attributable to the allocations of the realised amount of revenues from trading derivatives accrued during the year, but not yet credited to the company’s current accounts as at 31 December 2017.

31. Cash and cash equivalents - EUR 27,071,599

The values booked to the financial statements reflect the actual amount of cash on hand and at banks as at the end of the year under review and are broken down as follows.

	31.12.2017	31.12.2016	Change
Bank and post office deposits	27,049,922	9,051,181	17,998,741
Cash and cash equivalents	21,677	20,020	1,657
Total	27,071,599	9,071,201	18,000,398

As stated in note no. 26 the company holds additional financial resources classified in financial receivables since they are restricted.

32. Non-current assets held for sale - EUR 2,259,055

For the current financial year, the item amounts to EUR 2,259,055 in relation to the value of the quota held in Green Hydro 1 S.r.l. and related loan value and of the quota held in Converge S.r.l., which was disposed of in March 2018, which was reclassified to "Non-current assets held for sale" for the purposes of this Report and which was measured at the fair value of the sale, being in line with purchase cost.

	31.12.2017	31.12.2016	Change
Green Hydro 1 S.r.l. shareholding	10,200	10,200	-
Green Hydro 1 S.r.l. loan	348,855	302,688	46,167
Converge S.r.l. shareholding	1,900,000	-	1,900,000
Total	2,259,055	312,888	1,946,167

33. Shareholders' equity - EUR 32,118,218

Details of the item are reported below.

	Share Capital	Legal reserve	Other retained earnings (accumulated losses)	FTA reserve	Net profit (loss) for the year	Total shareholders' equity
Balances as at 1 January 2015	15,636,000	955,050	(4,215,070)	16,387,195	(1,961,245)	26,801,930
Changes in Shareholders' Equity	0	106,000	(12,867,092)	0	1,961,245	(10,799,848)
Net result as at 31/12/2015					(460,745)	(460,745)
Balance at 31 December 2015	15,636,000	1,061,050	(17,082,163)	16,387,195	(460,745)	15,541,338
Changes in Shareholders' Equity		66,986	4,542,176		460,745	5,069,907
Net result as at 31/12/2016			0		6,041,026	6,041,026
Balance at 31 December 2016	15,636,000	1,128,036	(12,539,987)	16,387,195	6,041,026	26,652,270
Changes in Shareholders' Equity		302,051	5,602,861	(297,121)	(6,041,026)	(433,234)
Net result as at 31/12/2017					5,899,183	5,899,183
Balance at 31 December 2017	15,636,000	1,430,087	(6,937,125)	16,090,074	5,899,183	32,118,218

The share capital totalling EUR 15,636,000 is fully paid in and is represented by 15,636,000 ordinary shares with a par value of EUR 1 each.

Details of other reserves are reported below.

	31.12.2017	31.12.2016	Change
Extraordinary reserve	9,689,858	3,950,884	5,738,974
Rounding reserve	1	3	(2)
Reserve for valuation at equity	6,297,595	6,297,595	0
Capital contributions	13,394	13,394	0
Translation reserve	0	0	0
Profits (losses) carried forward	(25,016,425)	(23,580,868)	(1,435,556)
Reserve for valuation of derivatives and contracts	2,315,963	930,953	1,385,009
AFS reserve	36,487	32,216	4,271
Actuarial gain reserve	(273,999)	(184,165)	(89,834)
Total	(6,937,125)	(12,539,987)	5,602,861

With reference to changes in shareholders' equity items, the following should be noted:

- ◆ the change relating to the legal reserve of EUR 302,051 and to the extraordinary reserve of EUR 5,738,974 are attributable to the allocation of statutory profit to the approved financial statements filed on 31 December 2016;
- ◆ the change of EUR (89,834) in the actuarial gain reserve includes the differences deriving from the valuation of TFR liabilities according to the criteria set out in IAS 19;
- ◆ the change of EUR 1,385,009 in the reserve for valuation of derivatives and EUR 4,271 in the AFS reserve relate to the fair value changes of the financial instruments in portfolio and of the derivative financial instruments held for hedging purposes, deferred in their respective equity reserves according to IAS 39;

- the change of EUR (297,121) in the FTA reserve and of EUR (1,435,556) in profits (losses) carried forward relate to adjustments to balances on deferred tax assets and liabilities relating to errors from previous years or to errors arising from the transition to IAS/IFRS, respectively.

The table below contains a description of the reserves by origin, availability and method of use.

Nature / description	Amount	Possibility of use	Portion available
Share Capital	15,636,000		
Capital reserves:	13,394	A, B, C	13,394
Profit reserves:			
Equity method reserve	6,297,595	A, B	
Legal reserve	1,430,087	B	
Extraordinary reserve	9,689,858	A, B, C	9,689,858
Valuation reserve			
Reserve for valuation of derivatives and financial instruments	2,315,963		
AFS reserve	36,487		
Actuarial gain reserve	(273,999)		
Profits (losses) carried forward	(25,016,425)		
Other reserves	1		
Total			9,703,252

Key: A. for share capital increases - B. for coverage of losses - C. for distribution to shareholders

34. Long-term loans - EUR 6,288,796

The item, which includes the long-term portion of the loans existing at the date of this report, can be broken down as follows.

	31.12.2017	31.12.2016	Change
Banca Popolare di Vicenza	0	1,008,002	(1,008,002)
Banca Popolare di Spoleto	190,227	0	190,227
Alba Leasing S.p.A.	840,733	469,341	371,392
Dell Financial	72,712	0	72,712
Banca Popolare di Milano	250,000	0	250,000
Banca Pop. Bergamo	106,129	0	106,129
GE Capital Interbanca	1,328,995	0	1,328,995
Simest S.p.A.	3,500,000	3,500,000	0
Total	6,288,796	4,977,343	1,311,453

The increase compared to the previous year was mainly attributable to the loan granted by Banca Popolare di Spoleto in March, as well as to the loans raised with GE Capital and Banca Popolare di Bergamo outstanding as at 31 December 2017 following the merger with Sacri Real Estate S.p.A. and the loan raised with Banca Popolare di Milano deriving from the Tradeinv business unit acquired.

As regards the payable for the lease with Alba Leasing, it should be noted that the leasing rate is equal to 2.11% and that this payable, maturing on 31 December 2021, was recorded in the financial statements and measured at amortised cost using the effective interest rate of 2.02%. In December 2017 there also was a payable for the lease with Dell Financial Services arising from the lease of the Energia e Territorio business unit. The related leasing rate is equal to 5.53% and this payable, due November 2022, has been recognised at amortised cost based on the effective interest rate (IRR) of 4.63%.

Finally, the amount of EUR 3,500,000, owed by the company Simest S.p.A., refers to the long-term portion of the payable related to the commitment to purchase the relative shares in the company Green Network Holding Rinnovabili S.r.l.. For more details, reference should be made to note no. 18.

35. Employee severance indemnity and other employee benefits – EUR 2,707,861

The item is made up exclusively of company liabilities for employee severance indemnity vis-a-vis its employees.

	31.12.2017	31.12.2016	Change
Employee severance indemnity and other employee benefits	2,707,861	1,514,811	1,193,050
Total	2,707,861	1,514,811	1,193,050

The following table shows the change in the provision as at the date of this Report.

	Amount
Opening balance	1,514,811
Balances from acquisitions	844,210
Use for leavers	(197,684)
Provision for the year	381,130
Adjustment IAS 19	165,393
Balance at 31 December 2017	2,707,861

The discounting of liabilities, as per IAS 19, was carried out by an actuary appointed by the company who took into account the following actuarial assumptions:

- ◆ the probabilities of death were deduced from the Italian population, by age and gender, as calculated by ISTAT in 2000 and reduced by 25%;
- ◆ the probability of termination of service due to absolute and permanent disability was calculated, by age and gender, according to the disability tables currently used by the insurance sector.
- ◆ as regards the pension age for the general assets item, the first requisite for retirement accepted by the Compulsory General Insurance was taken into account, assuming that employees' INPS contributions began, at the latest: at the age of 25 for the current managers, 23 for current executives, 20 for current white-collar staff and 18 for blue-collar staff.
- ◆ The valuation takes into account the variations in the retirement age introduced into national law by recent reforms;
- ◆ the probability of termination of service due to resignation or dismissal was determined, as at the valuation date, at a turn-over rate of 10% per annum;
- ◆ the probability of an advance payment request was estimated at 3.00% per annum, with the size of the advance equal to 60% of the TFR remaining in the business.

With regard to wage growth, an all-inclusive wage trend of 2.70% per annum was used for all the professional categories. The estimated inflation rate used for the valuations was 1.50% per annum. The discount rate used for the valuations was 1.3022% per annum as it stands at 31 December 2017 or bond securities issued by AA-rated European companies for durations of more than 10 years.

The change in the actuarial gains reserve is shown below.

	Amount
Reserve at 31.12.2016	184,165
Provision for the year	118,203
Recognition of OCI taxes	(28,369)
Total as at 31.12.2017	273,999

36. Provisions for risks and charges (non-current portion) - EUR 13,267,435

Details of the item are reported below.

	31.12.2017	31.12.2016	Change
Provision for deferred taxation	9,665,912	2,976,233	6,689,679
Provision for risks and charges	3,601,523	1,430,000	2,171,523
Total	13,267,435	4,406,233	8,861,202

The change in the associated provisions in the year under review is as follows.

	Provision for deferred taxes	Provision for risks and charges
Opening balance	2,976,233	1,430,000
Balances from mergers/acquisitions	6,723,570	3,601,523
Provision for the year	529,837	0
Uses during the year	(563,728)	(1,430,000)
Balance at 31 December 2017	9,665,912	3,601,523

The provision for deferred taxes, amounting to EUR 9,665,912 is allocated with reference to the income which will be taxed in future periods, broken down as follows:

	31.12.2017
Default interest income - Green Sud S.r.l.	192,445
Default interest income - GN L&G 2015	474,730
Default interest income - Green Network S.p.A. before 2015	954,237
Default interest income - Green Network S.p.A. 2015	603,240
Default interest expense Green Network S.p.A. 2016	(22,791)
Default interest expense Green Network S.p.A. 2017	364,504
Property revaluation - Sacri Re S.r.l. 2008	199,679
Taxes on valuation reserves of derivatives	226,645
Transfer of Energrid/Tradeinv business units	6,523,891
Adjustment to the reserve for OCI taxes for TFR and AFS	14,773
Other situations deriving from IAS/IFRS transition	134,559
Total	9,665,912

The provision for risks and charges recorded a decrease of EUR 1,430,000 following the use made of the amounts set aside in 2015 for the dispute relating to the import of electricity from the French border in 2008. The increase related to the balances of acquisitions/mergers and included an amount of EUR 450,206 relating to the provision for agents' supplementary clientele indemnity and an amount of EUR 3,151,317 relating to other provisions for risks, recognised in the accounts following the acquisition of the Energrid and Tradeinv business segments.

37. Tax liabilities- EUR 905,833

Details of the item are reported below.

	31.12.2017	31.12.2016	Change
Tax disputes	11,465	11,465	0
Payables for settlement agreements	894,368	1,788,734	(894,366)
Total	905,833	1,800,199	(894,366)

Tax payables due after one year include payables for tax disputes of EUR 11,465 and EUR 894,368 relating to agreements reached with the Tax Authorities connected to tax disputes relating to the years 2008 and 2009, which were repaid in instalments over roughly 4 years.

38. Other non-current liabilities - EUR 9,489,588

The item is mainly made up of payables for guarantee deposits received from customers in connection with the supply of electricity and gas.

	31.12.2017	31.12.2016	Change
Guarantee deposits	9,470,758	5,960,650	3,510,108
Other non-current liabilities	18,830	21,206	(2,376)
Total	9,489,588	5,981,856	3,507,732

39. Short-term loans - EUR 145,801,388

The item is composed of the following payables, which are due to be repaid in the next 12 months.

	31.12.2017	31.12.2016	Change
Current account payables	37,990,094	10,403,952	27,586,142
Due for advances	14,198,472	9,919,705	4,278,767
Payables due to factoring companies	89,066,842	23,314,587	65,752,255
Banca Popolare di Milano	1,000,000	1,070,533	(70,533)
BPER loan	125,679	0	125,679
Banca Popolare di Spoleto	1,050,853	0	1,050,853
GE Capital Interbanca	661,639	0	661,639
Banca Pop Vicenza loan	1,008,002	1,984,669	(976,667)
Alba Leasing S.p.A.	255,388	854,000	(598,612)
Banca Pop. Bergamo	81,556	0	81,556
MPS	166,667	0	166,667
Payables due to Simest for repurchase of quotas of Solcap Green S.r.l.	0	1,304,000	(1,304,000)
Other financial payables	196,196	185,725	10,471
Total	145,801,388	49,037,171	96,764,217

Payables for mortgages and loans refer to the short-term portion of mortgages and loans, while current account overdrafts and due for advances represent the amounts due to banks and financial institutions for current account overdrafts and current account advances.

The payable due to factoring companies is recorded for an amount equal to the advances received (net of commission) following the factoring of trade receivables with recourse, which envisage the possibility of recourse if the factoring company does not collect the amount of the factored receivable from the debtor on the envisaged expiry date.

40. Trade-related payables – EUR 368,883,816

The item is broken down as follows.

	31.12.2017	31.12.2016	Change
Trade payables	231,603,110	131,104,325	100,498,785
Payables for invoices to be issued	111,107,571	54,361,798	56,745,773
Advances	26,173,135	15,616,031	10,557,104
Total	368,883,816	201,082,154	167,801,662

It should be noted that during the year some reverse factoring operations were started, which entailed the transformation of some trade payables into financial payables for EUR 31.5 million.

41. Payables to parent companies, subsidiaries, associates and joint ventures - EUR 21,403,954

The item includes the company's payables due to subsidiaries and associated companies and the holding company, as detailed below.

	31.12.2017	31.12.2016	Change
Sacri Re S.p.A.	0	7,831	(7,831)
Green Network Trading UK PLC	211,378	3,601,744	(3,390,366)
Green Wind 1 S.r.l.	0	0	0
Solcap Green S.r.l.	12,935	10,253	2,682
Green Wind 2 S.r.l.	28,421	14,604	13,817
Le Fate Turchine 1 S.r.l.	40,795	100,000	(59,205)
Le Fate Turchine 2 S.r.l.	289,285	198,200	91,085
Energrid Srl	4,719,606	0	4,719,606
Payables due to subsidiaries	5,302,420	3,932,632	1,369,788
Solergys S.p.A.	5,603	4,130	1,473
Payables due to associated companies	5,603	4,130	1,473
JMS S.r.l.	7,185,134	9,156,087	(1,970,953)
Payables due to Joint Ventures	7,185,134	9,156,087	(1,970,953)
SC Holding S.r.l.	8,910,797	9,578,763	(667,966)
Payables due to parent companies	8,910,797	9,578,763	(667,966)
Total	21,403,954	22,671,612	(1,267,658)

Payables due to subsidiaries and associates derive from commercial relations that the company has with said entities. The payables due to Green Network UK PLC, Solcap Green S.r.l. and Green Wind 2 S.r.l. refer mainly to the purchase of electricity, while the payable due to Le Fate Turchine and Le Fate Turchine 2 S.r.l. relates to the payment still to be carried out to cover losses for 2015 recorded by the companies as per the minutes of the meeting of 28 April 2016. Payables due to Energrid S.r.l. relate to receipts collected by Green Network S.p.A. to be returned to subsidiary.

Payables due to Joint Venture include payables due to JMS S.r.l. arising from commercial relationships concerning energy trading.

The payable due to the parent company SC Holding S.r.l. derives mainly from payables related to tax consolidation and, to a lesser extent, the provision of services by the parent company.

42. Tax payables - EUR 21,189,803

The item is broken down as follows.

	31.12.2017	31.12.2016	Change
Due for taxation	405,614	1,012,012	(606,398)
Due to tax authorities for withholdings on employment and similar income	372,649	515,546	(142,897)
Due to tax authorities for withholdings on freelance income	373,678	132,668	241,010
Due to tax authorities for Gas	0	3,573,750	(3,573,750)
Due to tax authorities for UTF (finance office)	19,143,495	4,391,278	14,752,217
Payables for settlement agreements	894,367	1,084,714	(190,347)
Other tax payables	0	275,272	(275,272)
Total	21,189,803	10,985,240	10,204,563

The item is mainly made up of payables for direct taxes still to be paid, payables for gas and UTF excise duties, and the short-term portion of the settlement agreements reached with the tax authorities in previous years.

The increase in the item, as for the corresponding tax credits, is mainly attributable to higher payables to the Tax Authorities for advances connected to the excise duties on the consumption of gas and electricity sold.

43. Derivatives - EUR 6,900,098

The item includes the negative fair value of the financial derivatives that the company holds for both trading and hedging purposes in relation to the purchase of commodities.

	31.12.2017	31.12.2016	Change
Derivative financial instruments	6,900,098	6,246,780	620,161
Total	6,900,098	6,246,780	620,161

This is mainly made up of OTC derivatives and contracts for differences (entered into based on ISDA standards) for which the fair value was determined by applying level two as provided for by IFRS 13. More specifically, the amount of EUR 6,900,098 is made up of EUR 90,000 relating to the derivative financial instruments held by the company for hedging purposes in line with the guidelines contained in IAS 39 on hedge accounting, the change in fair value of which has been stated in cash hedging reserve, and EUR 6,810,098 relating to the derivative financial instruments held by the company for trading purposes or that do not meet the conditions for being classified as hedging instruments, the change in fair value of which has been booked directly to the income statement.

44. Other current liabilities - EUR 14,498,479

The item is broken down as follows.

	31.12.2017	31.12.2016	Change
Due to INPS (National Social Security Institute)	703,491	389,641	313,850
Due to INAIL (National Institute for Insurance against Accidents at Work)	3,688	16,183	(12,495)
Bilateral Body	1,684	1,737	(53)
Payables due to pension and insurance funds	248,362	386,088	(137,726)
Due to social security and welfare institutions	957,225	793,649	163,576
Due to employees and directors	3,462,173	1,211,449	2,250,724
Payables for guarantee deposits	64,166	63,166	1,000

Charges on derivative financial instruments	0	0	0
Payables for Rai Subscription	2,069,119	2,045,638	23,481
Sundry payables	7,945,796	3,066,258	4,879,538
Other payables	13,541,254	6,386,511	7,154,743
Total	14,498,479	7,180,160	7,318,319

This item is mainly made up of:

- ◆ EUR 957,225 related to payables due from the company to social security institutions and entities relating to its personnel;
- ◆ EUR 3,462,173 relating to payables due to employees and directors for fees pertaining to 2017;
- ◆ EUR 2,069,119 for payables related to the RAI subscription bill paid by the company to be paid to the Tax Authorities;
- ◆ EUR 7,945,796, mostly relating to customers to which supplies are no longer provided, with a negative balance at 31 December 2017, which have been reclassified to other payables for the purposes of this Report.

OTHER INFORMATION

Disclosures relating to financial instruments and the risk management policy

Below is a breakdown of the financial assets and financial liabilities required by IFRS 7 subdivided into the categories defined in IAS 39.

	Receivables and loans	Financial instruments held to maturity	Financial instruments available for sale	Derivative financial instruments		Book value	Notes to the financial statements
				for trading purposes	for hedging purposes		
Non-current assets	28,854,447	0	0	0	0	28,854,447	
Other equity investments	0	0	0	0	0	0	
Financial assets from parent company, subsidiaries and associated companies	19,674,586	0	0	0	0	19,674,586	19
Financial assets from third parties	9,179,861	0	0	0	0	9,179,861	22
Current assets	463,772,225	0	3,964,282	26,627,623	3,343,671	497,707,801	
Trade receivables from customers	368,153,536	0	0	0	0	368,153,536	24
Trade receivables from related parties	0	0	0	0	0	0	
Financial assets from parent company, subsidiaries and associated companies	44,830,298	0	0	0	0	44,830,298	25
Financial assets from third parties	23,716,792	0	3,964,282	26,627,623	3,343,671	57,652,368	27 - 28 - 29 - 30
Cash and cash equivalents	27,071,599	0	0	0	0	27,071,599	31
Total	492,626,672	0	3,964,282	26,627,623	3,343,671	526,562,248	

	Liabilities at fair value	Liabilities at amortised cost	Derivative financial instruments		Book value	Notes to the financial statements
			for trading purposes	for hedging purposes		
Non current liabilities	3,750,000	2,538,796	0	0	6,288,796	
Due to banks	250,000	1,625,351	0	0	1,875,351	34
Financial payables to third parties	3,500,000	913,445	0	0	4,413,445	34
Other financial liabilities toward third parties	0	0	0	0	0	
Current liabilities	547,530,199	3,057,438	6,810,098	90,000	557,487,735	
Due to banks	142,547,754	2,802,050	0	0	145,349,804	39
Financial payables to third parties	196,196	255,388	0	0	451,584	39
Trade-related payables	368,883,816	0	0	0	368,883,816	40
Financial liabilities to parent company, subsidiaries and associated companies	21,403,954	0	0	0	21,403,954	41
Other financial liabilities toward third parties	14,498,479	0	6,810,098	90,000	21,398,577	43 - 44
Total	551,280,199	5,596,234	6,810,098	90,000	563,776,531	

Fair value of financial assets and liabilities

For the fair value of securities listed on active markets, reference was made to the fair value recorded on these markets at the reference date of this Report, while in the case of securities not listed on an active market, the fair value was determined using the models and valuation techniques prevailing on the market taking into consideration different inputs from prices quoted but observable directly or indirectly.

It should be noted that for the trade receivables and payables with agreed maturity within the year, the fair value was not calculated since it is essentially in line with the related book value.

It should also be noted that the fair values were not calculated for financial assets and liabilities for which the fair value cannot be determined objectively.

Types of financial risks and related activities

Credit risk

Credit risk represents the company's exposure to potential losses resulting from the non-fulfilment of the obligations assumed by commercial and financial counterparties. As far as the company goes, the exposure to credit risk is primarily related to commercial sales activities on the free electricity and gas market.

In order to mitigate said risk, the company is equipped with a rating analysis system for the evaluation of customers before the start of new supply relations, also through appropriate agreements with the credit insurance company that carries out a preliminary evaluation of the customer credit limit, a key factor in supply contracts involving medium-low volumes. Furthermore, the customer verification and reminder procedures for past due amounts were again employed, in order to constantly improve financial operations, which is one of the most important aspects of the activity performed.

In relation to the turnover generated, credit risk is mitigated due to the collection terms, included in the range of 30-60 days, and the careful management of the portfolio and its constant monitoring mean that the company has no significant uncontrolled exposures.

Lastly, the company stipulated an insurance policy with the company Euler Hermes Italia S.p.A. to cover the risk of trade-related receivables. The total receivables insured amounts to a maximum of approximately EUR 108 million.

It should also be noted that the company primarily conducted non-recourse factoring, with the transfer of commercial risks to factors, and received bank sureties for EUR 5,000,000 to guarantee the correct collection of the associated trade-related receivables.

Lastly, it should be noted that, in compliance with the accounting standards, the company continuously carries out the valuation and determination of the Allowance for doubtful receivables in order to cover its associated losses in value.

Liquidity risk

Liquidity risk is the risk of an entity having difficulty in fulfilling the obligations associated with financial liabilities to be settled by delivering cash or cash equivalents or another financial asset. Liquidity risk management activity is targeted at containing the risk of the company's available financial resources not being sufficient to cover the financial and commercial obligations according to the pre-established terms and maturity dates.

The strategic objective is to ensure the company has sufficient credit lines at any moment to respect the financial maturity dates of the relevant subsequent period.

In any case, the company is believed to be subject to limited exposure to liquidity risk thanks to its capacity to generate cash flows, and limited exposure to the risk of changes in cash flows, in consideration of the fact that the company's debt is insignificant and largely limited to the advance payment of trade receivables from customers.

Regulatory risk

One potential source of risk is the constant changes in the reference regulatory context, which affects the functioning of the market, tariff plans, the levels of service quality required and technical-

operational obligations. In fact, the area of risk is related to the current technical complexity of the sector which requires constant updating, as regards the resolutions of the competent Authority which regulates the sector.

In this regard, the company is committed to constantly monitoring the legislation which regulates the sector in order to promptly acknowledge any changes, targeted at minimising the economic impact of any changes.

Market risk

Given its operating segment, the company is exposed to market risks, mainly to the risk of fluctuations in interest rates, the risk of fluctuations in commodity prices, and, to a lesser extent, in exchange rates, which are mitigated by adequate control mechanisms put in place by the management.

The risk analysis and management are carried out based on a control process that provides for the performance of activities all over the year. The related reports to the Top Management are provided on a monthly and daily basis.

Market Risk means the risk relating to unexpected effects on the value of the portfolio assets due to changes in market conditions.

In this context some cases might give rise to **Price Risk** and **Volume Risk**, which are defined as follows:

- ✓ **Price Risk**: is associated with changes in commodity prices arising when there is a mismatch between price indices for purchased and sales of Electricity and Natural Gas;
- ✓ **Volume Risk**: is associated with changes in the volumes that are actually consumed by end customers compared to volumes forecast in contracts of sale (sales profiles) or, in general, with the balancing of portfolio positions.

Risk limits are defined so as:

- ✓ To minimise overall risk;
- ✓ To ensure the necessary operating flexibility in procurement of commodities and hedging activities.

The commodity risk management and mitigation are functional to achieving the economic and financial targets of the Green Network Group, as stated in the budget-plan; specifically:

- ✓ Protecting the Gross profit from unexpected events and unfavourable short-term market shocks that might have an impact on revenues or costs;
- ✓ Identifying, measuring, managing and represent risk exposure;
- ✓ Reducing risks by preparing and applying appropriate internal control checks, procedures, IT systems and expertise.

Forward contracts (for physical purchases or sales of commodities and/or hedging derivatives) are entered into to meet the expected requirements arising from the contracts held in the portfolio.

Risk exposure is evaluated based on the following activities:

- ✓ Recording all transactions relating to physical and/or financial quantities in appropriate books broken down by commodity (e.g. Electricity, Gas), purpose (Trading or purchase and sale on wholesale markets, Portfolio Management, Sale to end customers) and type of transactions (physical or financial);
- ✓ Analysing purchases and sales carefully, limiting open positions, i.e. the exposure of physical positions of purchase and sale of each commodity;
- ✓ Creating reference scenarios (prices, indices) and control of exposures.

Interest rate risk

The company is primarily exposed to interest rate risk in relation to medium/long-term loans payables, indexed at a floating rate, which are, nonetheless, assessed as limited based on the trend in the financial markets, as well as in consideration of the fact that the duration of such advances is limited.

Exchange rate risk

The company is active mainly in the Italian market and, at any rate, in Eurozone countries and its exposure to exchange rate risk is therefore extremely limited.

Risk of fluctuation in commodity prices

The company, operating essentially as an intermediary in the dispatching of energy and gas both nationally and internationally, is active in the trading and sale of electricity and gas to different types of end customers (energy-intensive, small & medium, etc.).

The company, not being a producer of electricity and gas, must obtain its supplies on the electricity and gas market, thereby exposing it to the market risk associated to price volatility. This risk also exposes the company to the related liquidity risk linked to the fact that in order to ensure the supply to end customers of the contractually-agreed amount of electricity and gas it has to advance large sums of money for the purchase of commodities. In order to cope with this risk, the company enters into derivative contracts that enable it in most cases to fix the future price of purchase of energy and gas.

The main financial derivative instruments used by the company are the following:

- ◆ operations on the electricity market:
 - derivatives with underlying NSP;
 - derivatives with underlying power other than NSP;
- ◆ operations on the gas market: derivatives with underlying TTF.

The differentials relating to flows connected to these derivative financial instruments are generally adjusted monthly.

In this regard, the company has established internal policies and procedures for the management of the risk of commodity price volatility and the related management and accounting representation of derivative financial instruments. Specifically, the aim of the transaction to hedge the risk of the NSP (National Single Price) is to fix the cost of a portion of future variable-price purchases of electricity on the Italian market represented by the NSP index for the reference period in question, in order to fulfil the fixed-price supplies provided by the company.

This is generally achieved through the stipulation of contracts for differences ("hedging instruments") that allow the company to regulate a variable amount indexed to the NSP on the basis of a fixed value established at the time of stipulating the contract (Buy position). Derivatives taken out for hedging purposes are grouped together in a hedging portfolio consisting of derivatives which, once effectiveness testing has been carried out and formal Hedge Documentation has been prepared pursuant to IAS 39, are designated as hedging operations. As regards inclusion in the financial statements, the fair values of the derivatives in the portfolio (for the portion that is effective) are added to a specific Cash Flow Hedge reserve (OCI) while for the non-effective portion they are recognised directly in profit or loss.

The hedging strategy pursued by the company uses a “Bottom Layer” approach which consists in identifying a portion (“Layer”) that is lower than the total amount, considered almost certain and not reformulated according to changes in the volumes forecast over time, unless these do not fall within the Layer itself. For the year under review, the hedging portfolio is made up exclusively of Buy derivatives hedging Layers; once established at inception, hedges are generally not reviewed until the derivatives reach maturity.

With reference to effectiveness testing, prospective effectiveness testing is carried using the “critical terms comparison” approach aimed at attesting to the high prospective effectiveness of the hedging relationship by verifying correspondence with the main characteristics of the hedged item and the hedging instrument. Retrospective effectiveness testing, on the other hand, is carried out using the Dollar-Offset method and the hypothetical derivative method.

The table below shows the comparison between the overall monthly volumes of the hedging portfolio and the future electricity purchase forecasts produced as at the reporting date (31 December 2017).

Period	Jan. 18	Feb. 18	Mar. 18	Apr. 18	May 18	Jun. 18	Jul. 18	Aug. 18	Sep. 18	Oct. 18	Nov. 18	Dec. 18
Hedged portion (%)	17%	16%	17%	9%	8%	8%	8%	11%	10%	10%	10%	11%
Forecast Hedged Item (MWh)	416,569	404,176	425,608	345,444	400,121	416,308	395,180	296,274	333,534	340,833	335,402	305,604
Total volume Hedging Portfolio (MWh)	70,680	63,840	70,585	32,400	33,480	32,400	33,480	33,480	32,400	33,525	32,400	33,480

The table below lists the main information required by international accounting standards for the derivative contracts included in the hedging portfolio.

Inception date	Derivative Type	Profile	Effective date	Termination date	Hourly energy qty	Fixed price	Total volume	Residual volume	Fair Value at 31.12.2017	Derivative valuation
27/11/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	5	60,25	10,795	10,795	59,78	(5,411)
27/11/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	10	60,15	21,590	21,590	59,78	(8,662)
28/11/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	5	59,98	10,795	10,795	59,78	(2,442)
19/09/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	49,90	43,800	43,800	54,43	197,292
09/10/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	49,85	43,800	43,800	54,43	199,482
11/12/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	10	60,25	21,590	21,590	59,78	(10,821)
15/12/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	10	61,95	21,590	21,590	59,78	(47,524)
19/12/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	10	60,45	21,590	21,590	59,78	(15,139)
03/06/2016	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	40,70	43,800	43,800	54,43	600,252
13/01/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	44,80	43,800	43,800	54,43	420,672
01/03/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	43,50	43,800	43,800	54,43	477,612
08/06/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	44,85	43,800	43,800	54,43	418,482
24/07/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	44,25	43,800	43,800	54,43	444,762
09/08/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	45,25	43,800	43,800	54,43	400,962
14/09/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	50,20	43,800	43,800	54,43	184,152
										3,253,670

IFRS 7 and IFRS 13 require that the classification of financial instruments measured at fair value be carried out on the basis of the quality of the input sources used to determine the fair value itself. As already described at the beginning of this section, for the purposes of determining the fair value, reference is made to Level 2 referred to in IFRS 13, which uses methodologies and instruments to determine the fair value based on different inputs from prices quoted in an active market, but observable directly or indirectly on the market.

The following table illustrates the fair value hierarchy for the company's financial assets and liabilities valued at fair value on the basis of valuation techniques that use as reference parameters observable on the market (Level 2).

	31.12.2017	31.12.2016
Derivative assets	29,971,294	8,582,781
Derivative liabilities	6,900,098	6,246,780
AFS instruments	3,964,282	8,274,800

Related-party transactions

The main related-party transactions entered into by Green Network S.p.A. for financial years 2017 and 2016 are detailed below, all regulated on an arm's length basis.

TRANSACTIONS WITH RELATED PARTIES YEAR-ENDED 31.12.2017		Equity investments	Receivables for loans	Trade-related receivables	Receivables for security deposits due after	Receivables from tax consolidation	Payables for tax consolidation	Trade and financial payables	Sundry payables	Total balance sheet transactions
Holding companies										
	SC Holding S.r.l.	-	3,286,037	-	-	20,482,977	8,314,797	-	596,000	32,679,812
Subsidiaries										
	Green Network Holding Rinnovabili S.r.l.	6,665,350	3,819,141	39,244	-	-	-	-	-	10,523,735
	Green Network UK Plc.	5,097,025	5,310,000.00	1,692,705	-	-	-	211,378	-	12,311,108
	Spectrum Tech	-	-	29,983	-	-	-	-	-	29,983
	Green Hydro 1 S.r.l.	-	-	107,919	-	-	-	-	-	107,919
	Green Wind 1 S.r.l.	-	111,084	5,809	-	-	-	-	-	116,893
	Green Wind 2 S.r.l.	271,764	745,730	94,924	-	-	-	28,421	1,782	1,142,622
	Rena Energia S.r.l.	112,957	2,084,829	403,111	-	-	-	-	-	2,600,897
	Solcap Green S.r.l.	2,676,000	327,539	104,738	-	-	-	12,935	-	3,121,212
	Le Fate Turchine 1 S.r.l.	106,298	-	15,529	-	-	-	40,795.00	-	162,622
	Le Fate Turchine 2 S.r.l.	491,150	-	2,145	-	-	-	289,285.00	-	782,580
	Biogas Energy S.r.l.	1,750,324	2,542,643	432,316	-	-	-	-	-	4,725,283
	Energrid S.r.l.	10,000.00	-	13,803,514.00	-	-	-	4,719,605.19	-	18,533,119
Associated companies										
	Converge	1,900,000	-	-	-	-	-	-	-	1,900,000
	Solergys	320,845	1,420,085	419,222	-	-	-	-	-	2,160,152
	US Boreale S.r.l.	378,744	10,000	-	-	-	-	-	-	388,744
Joint Ventures										
	JMS	267,620	-	7,213,661	-	-	-	7,185,134	-	14,666,415
Other companies										
	Itaipower Energia S.r.l.	10,000	-	-	-	-	-	-	-	10,000

TRANSACTIONS WITH RELATED PARTIES YEAR-ENDED 31.12.2017		Revenues for sales	Other revenue and income	Consumption of materials and services	Other costs	Interest income from loans	Other financial income	Revaluations/ (write-downs) or equity investments	Total transactions
Holding companies									
	SC Holding S.r.l.	408	-	-	-	-	-	-	408
Subsidiaries									
	Green Network Holding Rinnovabili S.r.l.	-	10,000	-	-	67,562	-	(1,035,000)	(957,438)
	Green Network UK Plc.	-	-	61,365	-	124,875	215,250	0	401,490
	Spectrum Tech	-	24,000	-	-	-	-	0	24,000
	Green Hydro 1 S.r.l.	-	12,612	-	-	20,487	-	(15,000)	18,099
	Green Hydro 2 S.r.l.	-	1,750	-	-	2,362	-	(7,147)	(3,035)
	Green Wind 1 S.r.l.	3,058	-	-	30	-	-	0	3,088
	Green Wind 2 S.r.l.	984	11,994	126,715	-	37,287	85	0	177,064
	Rena Energia S.r.l.	11,945	115,625	-	-	36,881	1,076	0	165,526
	Solcap Green S.r.l.	5,032	26,800	153,454	-	15,699	1,675	0	202,660
	Le Fate Turchine 1 S.r.l.	2,181	3,000	-	45,428	-	-	0	50,609
	Le Fate Turchine 2 S.r.l.	12,395	3,000	-	204,000	-	-	0	219,395
	Biogas Energy S.r.l.	9,966	3,026	-	-	121,160	8,253	0	142,405
	Energrid S.r.l.	5,414,333	53,285	-	-	-	-	0	5,467,618
Associated companies									
	Converge	-	-	-	-	-	-	(16,570)	(16,570)
	Solergys	99,864	-	-	-	-	27,158	128,984	256,005
	US Boreale S.r.l.	14,500	-	-	-	-	-	1,365	15,865
Joint Venture									
	JMS	25,876,512	-	25,992,113	-	-	-	(75,692)	51,792,933
Other companies									
	Itaipower Energia S.r.l.	-	-	-	-	-	-	-	-

TRANSACTIONS WITH RELATED PARTIES YEAR-
ENDED 31.12.2016

	Equity investments	Receivables for loans	Trade-related receivables	Receivables for security deposits due after	Receivables from tax consolidation	Payables for tax consolidation	Trade and financial payables	Sundry payables	Total balance sheet transactions
Holding companies									
SC Holding S.r.l.	-	3,437,194	89,746	-	9,011,574	3,050,243	671,000	-	16,259,758
Subsidiaries									
Sacri Real Estate S.p.A.	670,000	6,263,379	28,247	108,000	-	-	7,831	-	7,077,457
Green Network Holding Rinnovabili S.r.l.	7,700,350	3,961,141	183,037	-	-	-	-	-	11,844,528
Green Network UK Plc.	1,097,025	6,960,343,000	632,296	-	-	-	3,601,744	-	12,291,408
Spectrum Tech	-	-	17,907	-	-	-	-	-	17,907
Green Hydro 1 S.r.l.	-	-	56,102	-	-	-	-	-	56,102
Green Hydro 2 S.r.l.	21,022	64,779	22,632	-	-	-	-	-	108,433
Green Wind 1 S.r.l.	-	91,084	2,276	-	-	-	-	-	93,360
Green Wind 2 S.r.l.	254,435	745,730	100,314	-	-	-	14,604	21,206	1,136,289
Rena Energia S.r.l.	36,425	2,161,361	539,468	-	-	-	-	-	2,737,254
Solcap Green S.r.l.	2,676,000	277,539	82,503	-	-	-	10,253	-	3,046,295
Le Fate Turchine 1 S.r.l.	206,298	-	7,566	-	-	-	100,000.00	-	313,864
Le Fate Turchine 2 S.r.l.	491,150	-	47,675	-	-	-	198,200.00	-	737,025
Ata Energia Soc. Agric. S.r.l.	1,750,324	2,067,643	448,426	-	-	-	-	-	4,266,393
Green Network Energy	-	-	-	-	-	-	-	-	-
Associated companies									
Converge	1,916,570	-	-	-	-	-	-	-	1,916,570
Solergys	191,862	1,420,085	325,053	-	-	-	4,130	-	1,941,130
Joint Venture									
JMS	343,312	-	9,287,287	-	-	-	9,156,087	-	18,786,686
Other companies									
Italpower Energia S.r.l.	10,000	-	-	-	-	-	-	-	10,000

TRANSACTIONS WITH RELATED PARTIES YEAR-
ENDED 31.12.2016

	Revenues for sales	Other revenue and income	Consumption of materials and services	Other costs	Interest income from loans	Other financial income	Revaluations/write-downs of equity investments	Total transactions
Holding companies								
SC Holding S.r.l.	5,618	-	300,000	-	-	731	-	306,349
Subsidiaries								
Sacri Real Estate S.p.A.	3,719	3,282	883,284	-	-	-	-	890,285
Green Network Holding Rinnovabili S.r.l.	-	10,000	-	-	69,320	-	-	79,320
Green Network UK Plc.	-	-	33,256,000	-	37,523	1,265,814	-	34,559,337
Spectrum Tech	-	12,000	-	-	-	-	-	12,000
Green Hydro 1 S.r.l.	-	6,200	-	-	17,423	-	-	23,623
Green Hydro 2 S.r.l.	-	3,000	-	-	3,563	-	-	6,563
Green Wind 1 S.r.l.	3,000.00	-	-	-	2,275.83	-	-	5,276.00
Green Wind 2 S.r.l.	932	8,355	89,320	-	35,409	134	-	134,151
Rena Energia S.r.l.	13,651	103,071	-	-	71,106	459	-	188,287
Solcap Green S.r.l.	5,698	19,342	112,200	-	13,877	2,932	-	154,049
Le Fate Turchine 1 S.r.l.	1,250	3,086	-	-	-	-	-	4,336
Le Fate Turchine 2 S.r.l.	13,783	4,938	-	240,000	-	23	-	258,744
Ata Energia Soc. Agric. S.r.l.	21,582	4,411	-	-	54,324	13,994	-	94,311
Green Network Energy	-	-	-	-	-	-	-	-
Associated companies								
Converge	-	-	-	-	-	(1,664,497)	-	(1,664,497)
Solergys	103,529	-	-	-	-	28,506	(131,865)	169
Joint Ventures								
JMS	27,700,066	-	27,769,805	-	-	-	(43,010)	55,426,861
Other companies								
Italpower Energia S.r.l.	-	-	-	-	-	-	-	-

Disputes, outstanding matters and contingent liabilities

- ◆ During financial year 2014, Green Network S.p.A. and Green Network Luce & Gas S.r.l., merged by incorporation into Green Network S.p.A. in 2015, were inspected by the Guardia di Finanza (Italian Tax Police) across 2009-2013, concerning certain transactions relating to the physical trading activity of electricity put in place by the Company with certain counterparties, as suppliers or customers. Following these inspections, the companies received a report on findings, for which in-depth and complex briefs and observations were produced by an authoritative professional, in order to highlight the groundlessness of the objections made by the inspectors. To date, the Company has received assessment notices for VAT and Direct Taxes, with reference to tax periods from 2009 to 2011, and the related penalty notices, which it has contested before the Provincial Tax Commission. The company Green Network S.p.A., also as the merging entity of Green Network Luce & Gas and based on the opinions received over the years, believes that, owing to the absence of any prejudice for the Tax Authorities and for any other interested party, the risk with reference to the overall dispute and to the joint assessment of the plurality of claims for different reasons, with reference to the same facts subject matter of the dispute, is remote and uncertain and therefore, did not deem it necessary to enter any risk provision. It should be noted in this regard that on 30 June 2016, the Provincial Tax Commission of Rome, with Ruling 19904/50/16 filed on 13 September 2016, fully and peremptorily approved the appeals by the two companies against the assessment notices for the year 2009, recognising the full legitimacy of the physical trading operations carried out; furthermore, the other third-party companies, which were also involved in the same case, challenged the tax assessment notices served on them before the competent Tax Commissions: to date 11 judgments have been issued in favour of the taxpayer companies. The Revenue Agency initially filed an appeal against judgment 19904/50/16, but it subsequently submitted, together with the company, a request for deferment (which was granted) while seeking an amicable settlement of the dispute.
- ◆ On 26 June 2015, the company Green Network Luce & Gas received two assessment notices (one relating to VAT and IRAP and the other to IRES) in which some transactions entered into with a commercial operator were contested, despite having already been subject, however, to a specific and positive assessment during the course of other assessments that took place in previous years. On 1 July 2016, the Provincial Tax Commission of Rome, with Ruling 21181/47/16 filed on 26 September 2016, partially upheld the company's arguments. The incorporating company Green Network S.p.A. therefore lodged an appeal against the increased IRES and IRAP taxes contested by the Office. The company, supported by the opinions received from the professionals concerned, considers the risk connected with the dispute to be possible.
- ◆ In 2005, the company imported energy from Switzerland, by stipulating a purchase contract with Aar e Ticino SA di Elettricità (now Alpiq). In order to comply with the applicable regulations, the parties agreed that the consideration paid by Green Network S.p.A. to Aar e Ticino SA di Elettricità, included not only the amount for electricity, but also the amount due for certifications of origin from renewable sources required by the applicable regulations. The certifications obtained were not recognised by the GSE as appropriate to fulfil the obligation of certifying the origin of the electricity from renewable sources indicated therein, for which the AEEG issued a measure against Green

Network S.p.A. in which it ordered the company to acquire the missing green certificates and also handed it a pecuniary sanction. Green Network S.p.A. challenged the aforementioned measure before the administrative judicial authorities and succeeded in obtaining, at second instance proceedings, solely the cancellation of the pecuniary sanction. Pending an administrative judgement, Green Network S.p.A. initiated arbitration proceedings before the International Chamber of Commerce of Paris, aimed at obtaining a ruling against Alpiq S.A., formerly Aar e Ticino SA di Elettricità to repay the amount the former company must pay to the GSE, due to the non-recognition of the certifications of origin of electricity from renewable sources that said entity Aar e Ticino SA di Elettricità had delivered to it together with the energy it had sold to it in 2005. The arbitration proceedings that remained suspended until the settlement of the administrative issue restarted on 7 April 2016 and should be completed in 2018. The Directors, supported by the opinion of authoritative professionals, are confident of a positive outcome and consider the risk of losing to be possible. As such, no allocation was made to the risk provision.

- ◆ The following measures on imbalances are also reported below for the purposes of this Report. As a result of the Lombardy Region TAR's judgment No. 1648/2014 and the Council of State's judgments 1532/2015 and 2457/2016, which seek to restrict improper gains by dispatching users who exploit certain anomalies in the process of calculation of imbalance prices, Resolution 333/2016/R/eel of 24 June 2016 laid down the rules to apply in order to measure effective imbalances during the period from July 2012 to September 2014, setting out mechanisms which re-establish the regulations set aside by the abovementioned judgments of the Lombardy Region TAR and of the Council of State. With resolution 837/2017 of December 2017, an order was published in relation to the completion of audits referred to in Resolution 333/2016 for Green Network. According to ARERA, the Regulatory Authority for Energy, Networks and Environment (*Autorità di Regolazione per Energia Reti e Ambiente*, or ARERA), the company did not operate in a diligent manner during the first half of 2013. The Company filed an appeal against this resolution before the Lombardy Region TAR, which firstly suspended the order and then rejected the Company's petitions by judgment no. 897 of 4 April 2018. The Company promptly submitted an appeal to the Council of State on 26 April 2018. We are waiting for the hearing to be set, subject to the stay of execution of the Lombardy Region TAR's judgment. The directors, who are supported by the opinion rendered by authoritative professionals, are confident that the dispute will be favourably settled and consider the risk of losing the case as possible. Therefore, no allocation was made to the provision for risks.
- ◆ With Resolution 342/2016 ARERA has also started procedures for the timely adoption of prescriptive measures in relation to any possible advantage obtained by imbalances for the period from January 2015 to July 2016. With resolutions 559/2017 ARERA adopted a prescriptive measure against Green Network S.p.A. for the period from January 2016 to July 2016, as amended by resolution 136/2018. Then Green Network S.p.A. filed an appeal with the Lombardy Region TAR to have the aforesaid measure repealed, while obtaining, pending discussion of the merits, the stay of the ruling of the resolution passed by the Authority. Following the corporate acquisition of Energrid S.p.A, the Company assumed liability for the same measure issued against the acquired company (resolution 558/2017, as amended by resolution 74/2018), thus obtaining the stay pending discussion of the merits. The Company did not receive any final measure on the matter in relation to TradelInv Gas &Energy S.p.A.. The directors, who are supported by the opinion rendered

by authoritative professionals, are confident that the dispute will be favourably settled and consider the risk of losing as remote. Therefore, no allocation was made to the provision for risks.

For the sake of completeness, it should be noted that the company has brought, also in relation to the most recent case law and the resolutions passed by ARERA, the related actions to protect its own interests for the return of any sum unduly paid to electricity distributors. In this context, the directors, who are supported by the opinions rendered by authoritative legal counsels, believe that, as things stand, the risk of losing the case is remote.

At the date of this report, there were no additional disputes or pending tax matters for a significant amount that determined contingent liabilities for the company that are not reflected in this document.

Guarantees, commitments and off-balance sheet agreements

At the date of this report, the company has the following off-balance sheet guarantees and commitments in place:

- ◆ EUR 128,616,788 in sureties issued to third parties (of which EUR 61,577,359 related to insurance and EUR 67,039,428 of a financial nature);
- ◆ EUR 11,342,666 relating to the value of guarantees in the form of a pledge.

As already pointed out in the note relating to trade receivables, the company has also received sureties from customers in the amount of EUR 5,000,000.

The guarantees issued in favour of third parties are made up as follows:

- ◆ EUR 94,748,000 in favour of third parties for the purchase/sale of electricity, gas and derivatives, of which EUR 8,200,000 in favour of the subsidiary Green Network UK Plc;
- ◆ EUR 9,450,323 in favour of third parties for the transportation of electricity and gas;
- ◆ EUR 6,809,568 in favour of the Tax Authorities for Group VAT offsetting and surplus VAT reimbursements;
- ◆ EUR 1,000,000 in favour of GME for the performance of business on electricity markets;
- ◆ EUR 18,379,000 in favour of Terna S.p.A. for dispatching;
- ◆ EUR 908,500 in favour of SNAM for balancing;
- ◆ EUR 3,539,397 as sureties issued in favour of third parties for gas carried and distribution;
- ◆ EUR 750,000 in favour of Idea Fimit S.p.A. for the leasing of the new property at which corporate activities are carried out;
- ◆ EUR 450,000 in favour of Simest S.p.A. for the stake in the company Solcap Green S.r.l.;
- ◆ EUR 782,000 relating to other guarantees received in favour of third parties.

The amount of EUR 11,342,666 relating to pledges is composed as follows:

- ◆ EUR 7,419,290 due to banks for cash collateral activities relating to pledges requested by some banks to guarantee credit commitments agreed and/or used;
- ◆ EUR 3,923,376 as shares and securities.

The company has also received sureties and guarantees from third parties for a value equal to EUR 5,000,000 and has granted the following corporate guarantees/patronages/co-obligations:

- ◆ EUR 1,115,465 to guarantee the lease agreement held by the subsidiary Green Wind 2 S.r.l. with Alba Leasing S.p.A.;
- ◆ EUR 4,699,059 in guarantee of the outstanding bank loans by Rena Energia S.r.l. and Biogas Energy Società Agricola S.r.l.;
- ◆ EUR 1,372,398 in guarantee of the existing loans of the associated company Sòlerys S.p.A.;
- ◆ EUR 90,000 for a patronage/co-obligation in favour of the subsidiary Biogas Energy Società Agricola S.r.l.;
- ◆ EUR 4,888,063 for a patronage/co-obligation in favour of the holding company SC Holding S.r.l..

Remuneration due to Directors, Statutory Auditors and Independent Auditors

As already indicated in notes 4 and 5 above, the information relating to remuneration due to directors, statutory auditors and the independent auditors for 2017 is provided below.

	Amount
Directors' fees	2,930,000
Statutory Auditors' fees	68,305
Auditors' fees	225,000
Supervisory Body's fees	24,960
Total	3,248,265

Subsequent events

No further significant events occurred after the close of the current financial year, with respect to those already detailed in the relevant section of the Report on Operations.

Proposal for the allocation of profit for the financial year

The financial year under review closed with net profit of EUR 5,899,183 which shall be allocated as follows:

- ◆ EUR 294,959 to the legal reserve;
- ◆ EUR 5,604,224 to the extraordinary reserve.

Rome, 27 April 2018

Chairman of the Board of Directors

Piero Saulli

III – GROUP CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement and statement of comprehensive income

	Notes	2017	2016
Revenues			
Revenues from sales and services	1	986,002,812	692,233,865
Other revenue and income	2	14,864,532	15,561,308
Total revenues		1,000,867,344	707,795,173
Costs			
Electricity and gas purchase	3	916,220,005	616,669,897
Costs for services and materials	4	43,442,655	47,607,736
Payroll and related costs	5	20,005,951	16,462,763
Amortisation/depreciation and impairment	6	11,310,268	11,230,741
Provisions	7	2,000	2,000
Other operating costs	8	2,258,961	2,084,684
Total costs		993,239,840	694,057,821
EBIT		7,627,504	13,737,352
Financial income (expense) from financial instruments measured at fair value	9	12,399	(2,370,238)
Net profit (loss) from the sale of current and non-current operating assets	10	(8,717)	(116,956)
Financial income	11	1,674,042	2,066,482
Financial expense	12	(5,847,506)	(5,896,663)
Share of income/(expense) deriving from equity investments valued using the equity method	13	51,927	(1,840,378)
Pre-tax profit (loss)		3,509,649	5,579,599
Taxation	14	(1,261,649)	(5,393,386)
Net profit (loss) for the year, of which		2,248,000	186,213
- group share		2,160,872	92,144
- share pertaining to minority interests		87,128	94,069

	2017	2016
Profit (loss) for the year	2,248,000	186,213
Other components of comprehensive income		
Items that should not be reclassified to Profit (Loss) for the year		
Revaluations of property, plant and machinery and intangible fixed assets	0	0
Actuarial gains (losses) from defined benefit plans	5 (118,203)	(74,328)
Items that will or could then be reclassified to Profit (Loss) for the year		
Profit (losses) from redetermination of the value of financial assets available for sale	9 6,000	(38,026)
Gains (losses) on the translation of financial statements of foreign subsidiaries	548,943	(85,707)
Fair value changes in cash flow hedges	3 1,945,784	3,658,179
Income taxes relating to OCI	(692,341)	(1,000,789)
Overall profit (loss) for the year, of which	3,938,183	2,645,542
- group share	3,630,236	2,478,553
- share pertaining to minority interests	307,947	166,989

Statement of financial position

	Notes	31.12.2017	31.12.2016
Non-current assets			
Intangible fixed assets	15	23,639,915	1,151,892
Goodwill	16	26,504,123	0
Property, plant and machinery	17	31,969,685	34,559,185
Investment property	18	8,014,167	8,254,373
Equity investments	19	987,209	2,789,135
Receivables from parent companies, subsidiaries, associates and joint ventures	20	4,845,782	4,976,940
Deferred tax assets	21	8,585,325	8,554,702
Tax credits	22	5,084,332	5,050,138
Other non-current assets	23	12,693,074	2,907,352
Total		122,323,612	68,243,717
Current assets			
Inventories	24	2,475,043	670,925
Trade-related receivables	25	394,699,635	205,403,667
Receivables from parent companies, subsidiaries, associates and joint ventures	26	28,416,887	18,984,606
Loans to banks and other financial institutions	27	10,258,914	10,468,370
Tax credits	28	25,527,196	10,205,057
Derivatives	29	54,486,263	18,810,083
Financial assets available for sale	30	3,964,282	8,274,800
Other current assets	31	18,673,463	12,964,634
Cash and cash equivalents	32	35,310,420	10,649,490
Total		573,812,103	296,431,632
Non-current assets held for sale	33	1,799,590	(85,409)
Assets classified as held for sale	34	780,249	811,338
Total assets		698,715,554	365,401,278
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	35	15,636,000	15,636,000
Other reserves	35	(1,466,089)	(734,259)
Net profit (loss) for the year	35	2,160,872	92,144
Minority interests	35	550,453	224,485
Total shareholders' equity		16,881,236	15,218,370
Non-current liabilities			
Long-term loans	36	19,939,088	22,341,848
Employee severance indemnity and other employee benefits	37	2,888,843	1,567,014
Provisions for risks and charges (non-current portion)	38	13,323,827	4,565,273
Tax liabilities	39	905,833	1,800,199
Other non-current liabilities	40	9,490,738	5,964,750
Total		46,548,329	36,239,084
Current liabilities			
Short-term loans	41	149,562,711	52,156,429
Trade-related payables	42	403,994,722	207,041,632
Payables to parent companies, subsidiaries, associates and joint ventures	43	16,574,237	19,201,281
Tax payables	44	21,751,117	11,124,963
Derivatives	45	27,348,449	15,540,364
Other current financial liabilities	46	15,732,092	8,507,137
Total		634,963,328	313,571,806
Liabilities classified as held for sale	47	322,661	372,018
Total shareholders' equity and liabilities		698,715,554	365,401,278

Statement of changes in Shareholders' equity

	Share Capital	Legal reserve	Extraordinary reserve	Equity method valuation reserve	Profits (losses) carried forward	ITA reserve	Reserve for valuation of derivatives and contracts	Rounding reserve	Capital contributions	Retained earnings (accumulated losses)	A/S reserve	Translation reserve	Actuarial gain reserve	Net profit (loss) for the year	Total	Minority interests	Total shareholders' equity
1 January 2016	15,636,000	1,061,050	2,678,150	6,297,596	(28,138,763)	16,387,195	(2,347,931)	(2)	13,394	0	(1,774,972)	0	(167,994)	289,936	9,933,659	17,073	9,950,732
Profit (loss) for the year	0	0	0	0	0	0	0	0	0	0	0	0	0	92,144	92,144	94,069	186,213
Other components of comprehensive income	0	0	0	0	0	0	2,603,892	0	0	0	(27,067)	(133,650)	(56,489)	0	2,386,687	72,921	2,459,608
Total components of comprehensive income	0	0	0	0	0	0	2,603,892	0	0	0	(27,067)	(133,650)	(56,489)	92,144	2,478,831	166,990	2,645,821
Dividends approved	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase of treasury shares, net of quota transferred	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total transactions with shareholders, recognised directly in Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other changes	0	66,986	1,272,734	0	(1,155,027)	0	674,512	3	0	0	1,834,255	137,551	40,318	(289,936)	2,581,395	40,422	2,621,817
Balance at 31 December 2016	15,636,000	1,128,036	3,950,884	6,297,596	(29,293,790)	16,387,195	930,473	1	13,394	0	32,216	3,901	(184,165)	92,144	14,993,885	224,485	15,218,370
01-Jan-17	15,636,000	1,128,036	3,950,884	6,297,596	(29,293,790)	16,387,195	930,473	1	13,394	0	32,216	3,901	(184,165)	92,144	14,993,885	224,485	15,218,370
Profit (loss) for the year	0	0	0	0	0	0	0	0	0	0	0	0	0	2,160,872	2,160,872	87,128	2,248,000
Other components of comprehensive income	0	0	0	0	0	0	1,385,009	0	0	0	4,271	169,918	(89,834)	0	1,469,364	220,820	1,690,184
Total components of comprehensive income	0	0	0	0	0	0	1,385,009	0	0	0	4,271	169,918	(89,834)	2,160,872	3,630,236	307,948	3,938,184
Dividends approved	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase of treasury shares, net of quota transferred	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total transactions with shareholders, recognised directly in Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other changes	0	302,051	5,738,974	0	(7,771,764)	(297,122)	481	5	0	0	0	(173,819)	0	(92,144)	(2,293,338)	18,020	(2,275,318)
Balance at 31 December 2017	15,636,000	1,430,087	9,689,858	6,297,596	(37,065,554)	16,090,073	2,315,963	6	13,394	0	36,487	0	(273,999)	2,160,872	16,330,783	550,453	16,881,236

Consolidated Statement of Cash Flows

	Notes	2017	2016
Profit (loss) for the year		2,248,000	186,213
CASH FLOW STATEMENT OF OPERATING ACTIVITIES (A)			
Taxes for the period	14	1,261,649	5,393,387
Interest expense/(interest income)	11 - 12	3,800,657	3,322,434
Income from equity investments in other companies	11	(15,000)	0
Adjustments for non-monetary elements with a contra-entry in net working capital			
<i>Allocations to provisions</i>	5 - 6	<i>7,020,653</i>	<i>7,660,521</i>
<i>Depreciation/amortisation of fixed assets</i>	6	<i>4,975,378</i>	<i>3,908,630</i>
<i>Write-downs due to impairment</i>	6	<i>25,490</i>	<i>190,536</i>
<i>Other adjustments for non-monetary elements</i>	9 - 10 - 13	<i>(55,609)</i>	<i>4,327,571</i>
Cash flows from change in working capital			
- change in inventories	24	(1,804,118)	(614,805)
- change in trade and intercompany receivables	20 - 25 - 26	(202,451,890)	(17,323,175)
- change in trade and intercompany payables	42 - 43	194,326,046	(16,500,361)
- other changes in net working capital		(33,157,398)	15,564,201
Cash flows from other adjustments:			
<i>Interest income and other financial income received</i>	11	<i>1,867,945</i>	<i>2,320,356</i>
<i>Interest expense and other financial expenses</i>	12	<i>(5,847,506)</i>	<i>(5,896,663)</i>
<i>(Income taxes paid)</i>		<i>(5,393,387)</i>	<i>(5,082,690)</i>
<i>(Use of provisions)</i>		<i>9,605,597</i>	<i>85,831</i>
Cash flow generated (absorbed) by operations		(25,841,494)	(2,644,228)
CASH FLOW STATEMENT OF INVESTMENT ACTIVITIES (B)			
Cash flows from changes in property, plant and machinery	17	(1,455,918)	(3,628,575)
Cash flows from changes in intangible fixed assets	15 - 16	(49,707,389)	(821,044)
Cash flows from changes in equity investments	19	(31,148)	(105,293)
Cash flows from changes in receivables for loans	20	131,157	248,916
Cash flows from changes in financial instruments	9 - 29 - 45	4,314,201	848,448
Cash flow generated (absorbed) by investments		(46,749,097)	(3,457,548)
CASH FLOW STATEMENT OF FINANCING ACTIVITIES (C)			
Cash flows from third party financing:			
Increase (decrease) in short-term payables	41	97,406,281	14,717,522
Increase (decrease) in long-term payables	36	(2,402,760)	(3,885,978)
Dividends paid		0	0
Other changes in shareholders' equity items	35	0	0
Cash flow generated (absorbed) by financing activities		95,003,521	10,831,544
Increase (decrease) in cash and cash equivalents		24,660,930	4,915,981
Opening cash and cash equivalents		10,649,490	5,733,509
Closing cash and cash equivalents		35,310,420	10,649,490

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

The company Green Network S.p.A. (hereinafter “the company” or “the consolidating entity”), operating in the energy sector with reference to the trading of electricity and gas and the production of electricity from renewable sources, has its registered office in Rome, viale della Civiltà Romana, no. 7 and is subject to the management and coordination activities of SC Holding S.r.l. (reference is made in this regard to the notes to the financial statements for the year).

This annual financial report (hereinafter also “the Report”) includes the accounting positions of Green Network S.p.A. and its subsidiaries and the shareholding in associated companies and joint ventures (hereinafter “the Group”).

Compliance with IAS/IFRS

The consolidated financial statements are prepared in compliance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), recognised by the European Union in accordance with EC Regulation 1606/2002 and in force at the close of the year (the set of all reference standards and interpretations indicated above are defined below as “EU-IFRS”). In particular, the EU-IFRS were applied consistently to all periods presented in this document. This Report is stated in Euro, which represents the currency of the primary economic area in which the Group operates. Foreign companies are included in this report according to the principles indicated in the notes hereunder. This consolidated annual financial report was approved by the Board of Directors on 27 April 2018 and is subject to audit by PricewaterhouseCoopers S.p.A..

Financial statement layouts

The financial statement layouts used, the accounting principles applied, the recognition and measurement criteria used, and the consolidation criteria and methods applied for this Report are the same as those adopted for the preparation of the consolidated financial statements at 31 December 2016, to which reference is made for a more detailed overview.

Consolidated criteria and scope of consolidation

This report contains information on the equity, financial and economic position as well as on cash flows, cash and cash equivalents of Green Network S.p.A. and of the companies in which said company holds, directly or indirectly, a controlling stake in capital, or, exercises control defined by IFRS 10 as the “*power to determine the financial and management policies of an entity so as to obtain benefits from its activities*”.

◆ Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is assumed until the moment said control ceases to exist.

The necessary adjustments are made to the financial statements of subsidiaries, drafted in accordance with the reference accounting standards, to make the measurement criteria consistent with those adopted by the Group.

Therefore, these companies, solely for the purposes of drafting of these consolidated financial statements, prepare a reporting package containing the book values that conform to the international accounting standards (IAS/IFRS).

The close of the year of subsidiaries is aligned to that of the consolidating entity, and where this does not occur, the subsidiaries prepare the necessary balance sheets. For the purposes of this Report, all subsidiaries submitted financial statements for the year ended 31 December 2017 in line with the consolidating company, while for the UK subsidiaries Green Network UK PLC and Green Network Energy Ltd and the Romanian companies Spectrum Tech and Genera Green Energy the draft reporting packages submitted by them not containing the tax burden calculated for the year were taken into consideration.

Receivables and payables, as well as costs and revenues deriving from transactions between consolidated companies are fully eliminated; the capital losses and capital gains deriving from transfers of fixed assets between consolidated companies are also eliminated, as well as gains and losses deriving from transactions between consolidated companies relating to sales of assets retained as inventories at the purchasing company, write-downs and write-backs of equity investments in consolidated companies, and intercompany dividends. The portion of capital and reserves pertaining to minority interests in subsidiaries and the portion pertaining to minority interests of profit or loss for the year of consolidated subsidiaries are identified separately.

When the Group loses control of a subsidiary, the fair value of the residual equity interest held on the date of the loss of control is redetermined, with any resulting difference booked as profit or loss in the statement of profit/(loss) for the year attributable to the holding company. This value will also correspond to the initial book value of said residual equity investment as an equity investment in an associated company, joint venture or financial asset. Lastly, the Group will recognise all amounts previously recorded under components of comprehensive income in relation to that subsidiary, similar to the requirement in the event the holding company had disposed directly of the associated assets or liabilities. This would entail the reclassification of these profits or losses from shareholders' equity to the statement of profit/(loss) for the year.

◆ Associated companies and joint ventures

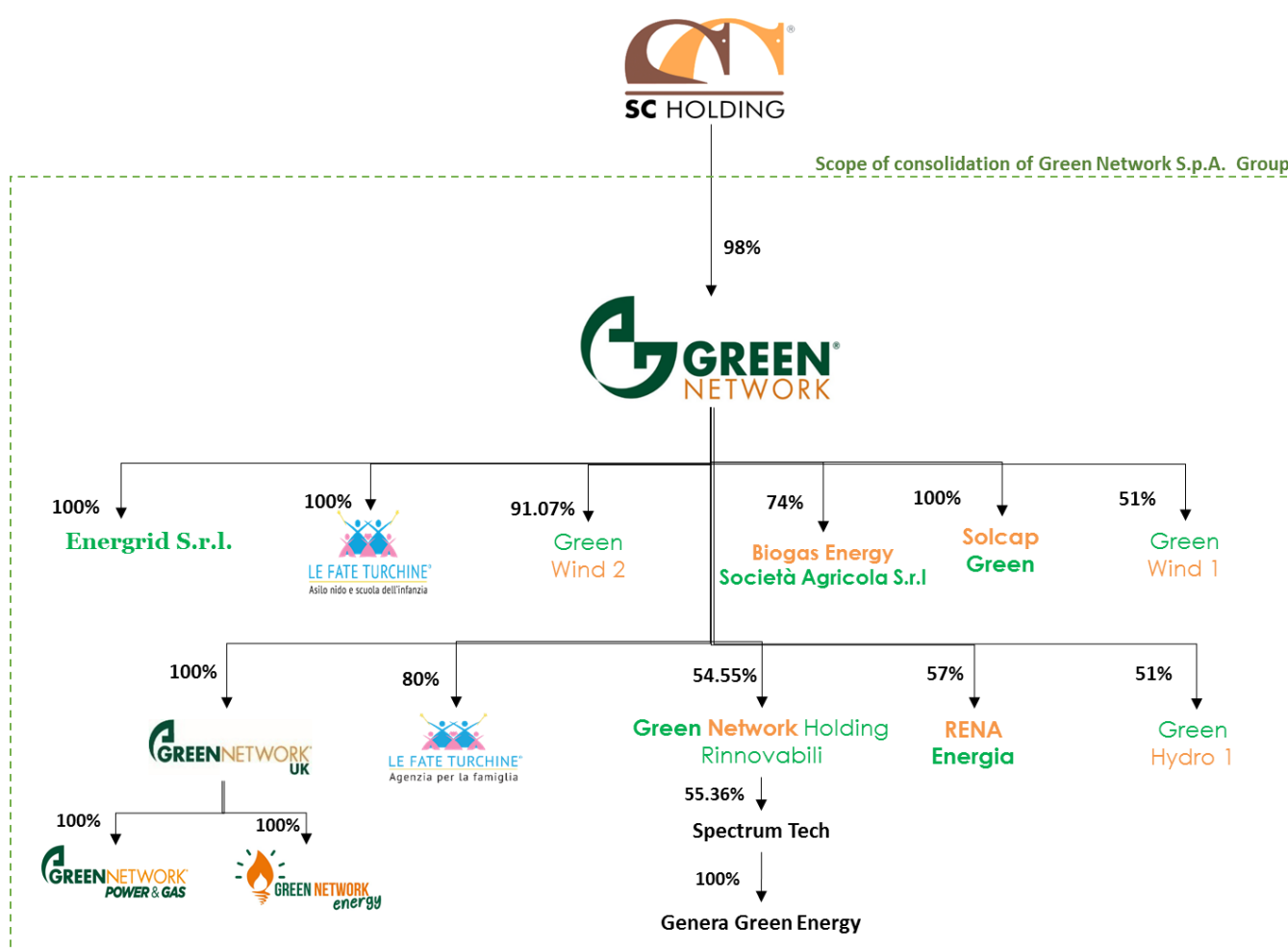
An associated company is an entity with no legal persons, as in the case of a partnership, in which the participant holds a significant influence and is neither a subsidiary nor jointly-controlled equity investment. Joint control is the contractually established sharing of control of an economic activity and only exists when the unanimous consent of all parties that share control (participants in joint control) is required for the financial and management-strategic decisions relating to the activity.

Equity investments in associated companies are recognised at cost which represents the fair value, and are subsequently measured using the equity method.

Profits or losses pertaining to the Group are recorded from the date on which the significant influence started up until the date it ceases. In the presence of impairment indicators, the book value of the equity investments is subject to impairment testing to verify the existence of permanent losses in value. In the presence of impairment, the recoverability of the investment in the associated company is verified by comparing the book value of the equity investment and the higher of the value in use, determined by discounting, where possible, the prospective cash flows of the investee, and the hypothetical sale value calculated on the basis of recent transactions or market multiples.

In the case of equity investments in subsidiaries that the Group holds through its controlling investees, the value of the equity investment is adjusted to take account of the effective percentage of the equity investment held by the Group, consequently the minority interests (capital and profit/loss).

The scope of consolidation of the Green Network S.p.A. Group for the purposes of these financial statements is shown below.



The table below provides a description of the primary business performed by each Group company.

Subsidiaries	Primary business	Consolidated criteria
SOLCAP GREEN S.R.L. Viale della Civiltà Romana 7, Rome	Generation of energy from renewable sources (photovoltaic)	Line-by-line
GREEN HYDRO 1 S.R.L. Viale della Civiltà Romana 7, Rome	Generation of energy from renewable sources (hydroelectric)	Line-by-line
ENERGRID S.R.L. Viale della Civiltà Romana 7, Rome	Electricity and gas sales to Public Authorities	Line-by-line
GREEN WIND 1 S.R.L. Viale della Civiltà Romana 7, Rome	Generation of energy from renewable sources (wind)	Unconsolidated
GREEN WIND 2 S.R.L. Viale della Civiltà Romana 7, Rome	Generation of energy from renewable sources (wind)	Line-by-line
RENA ENERGIA S.R.L. Viale della Civiltà Romana 7, Rome	Generation of energy from renewable sources (biomass)	Line-by-line
BIOGAS ENERGY SOC. AGRICOLA S.R.L. Viale della Civiltà Romana 7, Rome	Generation of energy from renewable sources (biogas)	Line-by-line
GREEN NETWORK UK PLC St.Martin's Court, 10 Paternoster Row - London (GB)	Trading and sourcing electricity	Line-by-line
GREEN NETWORK ENERGY LTD St.Martin's Court, 10 Paternoster Row - London (GB)	Electricity and gas sales to end consumers	Line-by-line
GREEN NETWORK POWER & GAS LTD London (GB)	Electricity and gas sales to end consumers	Unconsolidated
GREEN NETWORK HOLDING RINNOVABILI S.R.L. Viale della Civiltà Romana 7, Rome	Management of equity investments in companies operating in the renewable energy sector	Line-by-line
SPECTRUM TECH S.R.L. Bucharest (Romania), Barbu Stefanescu Delavrancea no. 55	Generation of energy from renewable sources (photovoltaic)	Line-by-line
GENERA GREEN ENERGY Romania	Generation of energy from renewable sources (photovoltaic)	Line-by-line
LE FATE TURCHINE S.R.L. Viale della Civiltà Romana 7, Rome	Personnel recruitment and selection	Line-by-line
LE FATE TURCHINE 2 S.R.L. Viale della Civiltà Romana 7, Rome	Offer of recreational and educational services.	Line-by-line
Associated companies	Primary business	
SOLERGY S.p.A. Viale della Civiltà Romana 7, Rome	Generation of energy from renewable sources (photovoltaic)	Equity (Equity Method)
U.S. BOREALE S.r.l. Via G Sacconi, 4 B - 00196 Rome	Real estate investment activities	Equity (Equity Method)
CONVERGE S.r.l. Brescia, Via Corsica no. 143	Construction of residential and non-residential buildings	IFRS 5
JMS (Associazione in partecipazione) Brescia, Via Corsica no. 143	Generation of energy from renewable sources (photovoltaic)	Equity (Equity Method)

The scope of consolidation, compared to financial statements closed at 31 December 2106, reported the following changes:

- ◆ Sacri Real Estate S.p.A. was merged by incorporation into Green Network S.p.A. with a view to the group's reorganisation aimed at streamlining the organisational structure and obtaining

administrative and operating cost savings, as well as the enhancement of potential synergies within the Group;

- ◆ Green Wind 1 S.r.l. was put into liquidation since it was deemed appropriate not to continue the company's business (this occurred on 19 July 2017). The company is not consolidated for the purposes of this report, given the little materiality of the carrying amounts, in the same manner as the financial statements at 31 December 2016;
- ◆ The Group's quota in Green Wind 2 S.r.l. rose up to 91.07% following the failure by the quotaholders of Nomar Enterprise S.r.l. and Free Energia S.p.A. to subscribe and pay the amount to cover the losses recognised in the financial statements at 31 December 2016 and to replenish the quota capital, each of them proportionally to their respective quotas;
- ◆ On 10 November 2017 Energrid S.r.l. was established with a quota capital that was fully subscribed by the sole quotaholder Green Network S.p.A., for the purpose of selling electricity and gas to Public Authorities following the acquisition of the business unit from Energrid S.p.A.;
- ◆ ATA Energia Società Agricola S.r.l. changed its name to "Biogas Energy Società Agricola S.r.l.";
- ◆ Green Network S.p.A. had committed to the minority shareholder (Simest S.p.A.) to acquiring all minority interests of Solcap Green S.r.l.. In July 2017 the Group paid Simest S.p.A. the related fees for the minority interest held in Solcap Green S.r.l. (EUR 1,304,000) and the transfer of related quotas took place in November 2017.

During the year under review an addendum to the preliminary contract was signed for the sale of the quotas of Green Hydro 1 S.r.l., which was completed in January 2018. At the same time, a preliminary contract was signed in June 2017 for the sale of the quotas held in Green Hydro 2 S.r.l., which was completed in August 2017.

With reference to the percentages of shares/holdings held, note that a commitment by the company Green Network S.p.A. exists vis-à-vis the minority shareholder (Simest S.p.A.) of the company Green Network Holding Rinnovabili to acquire all minority shares as at 30 June 2019 by paying an amount equal to the shareholders' equity as of the same date of transfer and, in any event, no less than EUR 3,500,000 and no more than EUR 3,920,000.

In compliance with IFRS 10, the subsidiaries were consolidated on a line-by-line basis. With reference to associated companies, in compliance with IAS 28, these companies were valued using the equity method, considering the accounting statement available as at 31 December 2017 with the exception of the companies US Boreale S.r.l. and JMS S.r.l. for which, given the unavailability of said financial statements, the value of the last set of approved financial statements (31 December 2016) was considered.

Translation of foreign currency items

The financial statements of subsidiaries and associated companies were drafted by using the currency of the primary economic area in which they operate ("functional currency"). For the purposes of this report, the financial statements of each foreign company are translated to Euro, as it is the

Group's functional currency. The following exchange rates were used for the financial statements of the Romanian companies Spectrum Tech S.r.l and Genera Green Energy (source: www.bancaditalia.it):

- ◆ exchange rate in force at the reporting date of the financial statements: 4.6585;
- ◆ costs and revenues are converted at the average exchange rate for the period/year: 4.5688.

With regard to the UK subsidiaries, note that the direct subsidiary Green Network UK Plc, operating in London, drafts its financial statements in euros as its accounts are set up in the European functional currency and, therefore, no accounting balances were translated. Green Network Energy has its accounts set up in the UK functional currency. The corresponding accounting entries have therefore been translated, for the purposes of drafting this Report, using the following exchange rates (source: www.bancaditalia.it):

- ◆ exchange rate in force at the reporting date of the financial statements: 0.88723;
- ◆ costs and revenues are converted at the average exchange rate for the period/year: 0.87667.

Restatement of some comparative values

For a better reporting, the comparative values for the financial year ended 31 December 2016 were restated to a lesser extent in order to recognise the tax effect arising from changes in the fair value of hedging derivatives and financial assets available for sale charged to equity, as well as from a change in the employee severance indemnity and other benefits payable to the employees of the parent company Green Network S.p.A..

	31.12.2016 comparative values	31.12.2016	Change
Share capital	15,636,000	15,636,000	0
Legal reserve	1,128,036	1,128,036	0
Extraordinary reserve	3,950,884	3,950,884	0
Equity method valuation reserve	6,297,596	6,297,596	0
Shareholder contributions	13,394	13,394	0
Translation reserve	3,901	3,901	0
Indivisible profits and reserves	(29,293,790)	(29,293,790)	0
Derivative valuation reserve	930,473	1,307,406	(376,933)
AFS reserve	32,216	45,260	(13,044)
Rounding reserve	1	1	0
Actuarial gain reserve	(184,165)	(242,322)	58,157
FTA reserve	16,387,195	16,387,195	0
Profit (loss) for the year	92,144	92,144	0
Total	14,993,885	15,325,705	(331,819)
Minority interests in capital and reserves	130,416	130,416	0
Minority interest profit (loss) for the year	94,069	94,069	0
Total shareholders' equity	15,218,370	15,550,190	(331,819)

Revenue and cost accounts which include the realised amount connected with derivative operations, together with this change, have been all charged to costs for purchases of electricity and gas both for the parent company Green Network S.p.A. and for subsidiary Green Network UK Plc.. For more details, reference is made to the table below:

	31.12.2016 comparative values	31.12.2016	Change
Revenues from sales and services	692,233,865	725,386,269	(33,152,404)
Purchase of electricity and gas	616,669,897	648,639,934	(31,970,037)
Costs for services and materials	47,607,736	48,790,103	(1,182,367)

It should be noted that payables to customers to which supplies are no longer provided were reclassified to "Other current liabilities" during the year. For more details, reference is made to the table below:

	31.12.2016 comparative values	31.12.2016	Change
Trade-related receivables	205,403,667	202,729,026	2,674,641
Other current liabilities	8,507,137	5,832,496	2,674,641

In addition to the above, time or pledged current bank accounts were reclassified to "Loans to banks and other financial institutions" during the year. For more details, reference is made to the table below:

	31.12.2016 comparative values	31.12.2016	Change
Loans to banks and other financial institutions	9,064,075	1,723,563	7,340,512
Cash and cash equivalents	12,053,785	19,394,297	(7,340,512)

Finally, it should be noted that in order to make the values for the financial year under review comparable with those of the previous year, reclassifications were made, where appropriate, in specific item details in the tables in the explanatory notes.

Significant events during the year

For more details, reference should be made to the information provided in the Report on the financial statements of Green Network S.p.A..

Measurement Criteria

The accounting policies and measurement criteria used were the same as those used to draft the Financial Statements of Green Network S.p.A., to which reference is made, except as described below.

Equity investments in associated companies and joint ventures

For the purposes of drafting the consolidated financial statements, investments in subsidiaries and associated companies are valued using the equity method and adjusted to take account of the actual percentage of shares held by the Group.

Taxation

For the purposes of this Report, note that taxes derive from the sum of taxes calculated on the book values of the individual consolidated companies that take account of the estimate of taxable income in compliance with the applicable rates and provisions, or substantially approved at the close of the year, and the applicable exemptions and tax credits due.

It should be noted that, for the year under review, the parent company and certain companies of the group applied the national tax consolidation option pursuant to articles 117 et seq. of Presidential Decree 917/1986, therefore transferring its tax result for the period for IRES purposes to the consolidating company SC Holding S.r.l.

Estimates

With reference to the use of accounting estimates, please refer to the explanatory notes to the financial statements of Green Network S.p.A..

SECTOR-BASED INFORMATION

The operational areas are identified by the management, in line with the management and control model used, with the business sectors and with the geographical areas in which the Group operates: Power and Gas, with reference to business sectors, and Italy, Romania and the United Kingdom with reference to geographical areas.

Below are the results by business line, compared with those of the corresponding period of the previous year:

Sector-based information by business sector

31 December 2017	Power	Gas	Other activities	Total
Revenues	900,110,331	85,892,481	14,864,532	1,000,867,344
Direct costs	(844,723,035)	(69,869,759)	(1,627,211)	(916,220,005)
Investments	31,382,030	2,994,611	8,134,270	42,510,911

31 December 2016	Power	Gas	Other activities	Total
Revenues	626,250,814	65,983,051	15,561,308	707,795,173
Direct costs	(574,099,176)	(40,776,723)	(1,793,998)	(616,669,897)
Investments	32,307,131	3,403,945	8,254,373	43,965,449

Sector-based information by geographical area

31 December 2017	Italy	UK	Romania	Total
<i>Revenues from electricity sales and services</i>	867,907,323	31,938,955	264,053	900,110,331
<i>Revenues from sale of gas</i>	70,844,991	15,047,490	0	85,892,481
<i>Other revenue and income</i>	13,258,160	0	1,606,372	14,864,532
<i>Electricity purchase and associated costs</i>	823,679,460	21,043,575	0	844,723,035
<i>Gas and electricity purchase and associated costs</i>	59,628,786	11,971,336	0	71,600,122

31 December 2016	Italy	UK	Romania	Total
<i>Revenues from electricity sales and services</i>	625,962,882	34,638	253,294	626,250,814
<i>Revenues from sale of gas</i>	65,953,760	29,291	0	65,983,051
<i>Other revenue and income</i>	13,873,629	197	1,687,482	15,561,308
<i>Electricity purchase and associated costs</i>	541,128,126	32,971,050	0	574,099,176
<i>Gas and electricity purchase and associated costs</i>	41,267,906	94,123	0	41,362,029

Other activities relate mainly to the real estate business and the agency work and crèche businesses. There is no significant concentration of sales of the Group.

Explanatory notes to income statement items

1. Revenues from sales and services - EUR 986,002,812

Revenues from sales and services refer exclusively to revenues from the sale of electricity and gas. Details of the item are reported below.

	2017	2016	Change	% change
Sale of energy	336,128,615	264,297,541	71,831,074	27.2%
GME gas sales	80,264,615	40,341,411	39,923,204	99.0%
Interconnector energy revenues	96,903,622	27,288,763	69,614,859	255.1%
Recovery of dispatch charges	56,141,291	46,318,898	9,822,393	21.2%
Recovery of transport charges	300,498,991	210,856,044	89,642,947	42.5%
Imbalance and CNA revenues	17,880,475	21,807,374	(3,926,899)	(18.0%)
CCC revenues	7,756,030	2,461,727	5,294,303	215.1%
EE Commercial costs	3,208,160	11,858,159	(8,649,999)	(72.9%)
Recovery of CMOR charges	1,328,532	1,015,650	312,882	30.8%
Import capacity	0	0	0	ns
Intercompany energy revenues	0	5,247	(5,247)	(100.0%)
Revenues from electricity sales and services	900,110,331	626,250,814	273,859,517	43.7%
Gas sales	67,520,700	51,705,844	15,814,856	30.6%
GME gas sales	775,721	110,600	665,121	601.4%
Recovery of gas transportation charges	4,628,515	1,533,205	3,095,310	201.9%
Recovery of gas carrier charges	7,570,902	8,781,630	(1,210,728)	(13.8%)
Gas imbalance revenues	3,218,016	385,112	2,832,904	735.6%
Other gas proceeds	27,747	5,811	21,936	377.5%
Commercial costs GAS	2,150,880	3,460,231	(1,309,351)	(37.8%)
Intercompany gas revenues	0	618	(618)	(100.0%)
Revenues from sale of gas	85,892,481	65,983,051	19,909,430	30.2%
Total	986,002,812	692,233,865	293,768,947	42.4%

On the whole, compared to the previous year, revenues from the sale of both energy and gas recorded an increase as a result of the development of the portfolio of large customers, the acquisition of the Tradeinv and Energrid business units and of the start of sales in the UK market. The new acquisitions contributed to the results of operations as from the date of acquisition (21 November 2017). For more details, reference should be made to the Report on Operations.

2. Other revenue and income - EUR 14,864,532

Other revenue and income were composed as follows as at 31 December 2017:

	2017	2016	Change	% change
Revenues from incentive tariff	977,381	911,952	65,429	7.2%
Operating grants	3,746,732	2,832,339	914,393	32.3%
Reimbursement of expenses	8,302	104,175	(95,873)	(92.0%)
Compensation from suppliers	543,181	207,466	335,715	161.8%
Revenues from contractual penalties and reimbursements	6,228,260	7,901,070	(1,672,810)	(21.2%)
Revenues from green certificates	1,606,372	1,654,241	(47,869)	(2.9%)
Recovery of costs and charges	90,020	80,055	9,965	12.4%
Rentals receivable	392,092	58,400	333,692	571.4%
Provision of services	697,311	516,013	181,298	35.1%
Other intercompany revenues	0	3,000	(3,000)	(100.0%)
Other income	574,881	1,292,597	(717,716)	(55.5%)
Total	14,864,532	15,561,308	(696,776)	(4.5%)

The item remained substantially in line with the previous year.

Operating grants related to the forms of incentive from which some Group companies benefit, thanks to plants that produce electricity from renewable energy sources.

3. Electricity and gas purchase - EUR 916,220,005

	2017	2016	Change	% change
Electricity purchases	454,952,280	253,711,263	201,241,017	79.3%
Energy transport charges	282,152,259	209,873,503	72,278,756	34.4%
Dispatch charges	54,792,105	41,689,664	13,102,441	31.4%
Imbalance and CNA EE costs	10,144,265	2,586,648	7,557,617	292.2%
CCC charges	4,152,952	321,605	3,831,347	1,191.3%
GME energy costs	35,999,748	62,832,928	(26,833,180)	(42.7%)
GME service costs	173,003	153,889	19,114	12.4%
CTS considerations	1,517,412	1,552,707	(35,295)	(2.3%)
CMOR charges	839,011	1,376,969	(537,958)	(39.1%)
Electricity purchase and associated costs	844,723,035	574,099,176	270,623,859	47.1%
Gas purchases	56,476,030	28,016,913	28,459,117	101.6%
Gas imbalance costs	1,946,940	0	1,946,940	ns
Gas transportation charges	5,352,157	4,192,523	1,159,634	27.7%
Gas carrier charges	7,484,877	9,058,393	(1,573,516)	(17.4%)
GME gas purchases	340,118	94,200	245,918	261.1%
Gas and electricity purchase and associated costs	71,600,122	41,362,029	30,238,093	73.1%
Biomass purchase	1,549,218	1,709,825	(160,607)	(9.4%)
Sundry purchases	73,755	29,499	44,256	150.0%
Consumables	77,993	84,173	(6,180)	(7.3%)
Inventories	(1,804,118)	(614,805)	(1,189,313)	193.4%
Total	916,220,005	616,669,897	299,550,108	48.6%

Electricity and gas purchase costs recorded an increase in the year under review compared to the previous year, connected with an increase in revenues for sales and services. For more details, reference should be made to the Report on Operations.

It should be noted that the item "Electricity purchases" includes the effect resulting from the regularisation of derivative contracts on commodities signed by the Group for the purposes of trading or hedging and settled during the year, as well as the change in the mark-to-market of trading derivative contracts existing at 31 December 2017. These are derivative contracts entered into with third parties having as their object the purchase and sale of electricity and, to a lesser extent, gas, with monthly adjustment of the fair value differential of the contract with respect to a defined value (e.g. NSP, TTF). More specifically, this effect can be represented as follows:

	Commodity derivatives settled during the year	Change in the FV of commodity derivatives	Total
Costs	(4,155,824)	(20,538,351)	(24,694,175)
Income	29,905,612	35,676,180	65,581,792

In order to determine said fair value, the company used Level 2, as referred to in IFRS 13.

During the financial year under review, the relative fair value of financial derivatives held for hedging purposes changed in comparison with last year's EUR 1,945,784, as booked to the OCI statement.

4. Costs for services and materials – EUR 43,442,655

Costs for services and materials are composed as follows:

	2017	2016	Change	% change
Other service costs	8,855,767	1,156,790	7,698,977	665.5%
Technical consulting	777,338	1,195,751	(418,413)	(35.0%)
Legal and tax consulting	2,843,528	4,529,048	(1,685,520)	(37.2%)
Insurance	117,202	102,755	14,447	14.1%
Sundry consulting	768,992	225,286	543,706	241.3%
Auditors' fees	288,800	126,674	162,126	128.0%
Financial consulting	413,250	458,424	(45,174)	(9.9%)
Advertising and promotion expenses	5,174,976	4,084,887	1,090,089	26.7%
Utilities	209,227	82,762	126,465	152.8%
Plant operation	137,810	132,464	5,346	4.0%
Postal and telephone expenses	1,213,229	3,024,309	(1,811,080)	(59.9%)
Stationery and printed materials	248,464	502,267	(253,803)	(50.5%)
Hardware and software support	1,829,876	1,089,188	740,688	68.0%
Financial expense	544,823	861,664	(316,841)	(36.8%)
Statutory Auditors' fees	77,401	73,919	3,482	4.7%
Supervisory Body's fees	31,200	31,200	0	0.0%
Factoring commission	1,129,575	394,246	735,329	186.5%
Charges on sureties	2,230,628	2,500,724	(270,096)	(10.8%)
Commission payable	6,324,466	18,531,320	(12,206,854)	(65.9%)
Call centre service costs	2,339,206	2,486,874	(147,668)	(5.9%)
Entertainment expenses	454,640	381,084	73,556	19.3%
Credit insurance	608,128	652,395	(44,267)	(6.8%)
Management costs and credit recovery	964,535	1,189,530	(224,995)	(18.9%)
Transport and Warehousing	142,639	153,129	(10,490)	(6.9%)
Maintenance and repairs	624,116	639,392	(15,276)	(2.4%)
Trading Fees & Subscriptions	247,723	15,273	232,450	1,522.0%
Rent expenses and associated charges	2,241,149	1,623,433	617,716	38.0%
Car rental	362,221	313,175	49,046	15.7%
Equipment rental	335,965	279,041	56,924	20.4%
Maintenance and repairs of third party assets	885,182	143,042	742,140	518.8%
Software licences	995,749	593,325	402,424	67.8%
Leasing fees and charges	1,498	11,010	(9,512)	(86.4%)
Building leases and easements	23,352	23,355	(3)	(0.0%)
	43,442,655	47,607,736	(4,165,081)	(8.7%)

The item recorded a decrease compared to the previous year, which was mainly due to lower costs for commissions expense compared to the previous year, despite an increase in other costs for services, mainly attributable to the gas transport fees paid by Green Network UK PIC on behalf of Green Network Energy Ltd..

5. Payroll and related costs - EUR 20,005,951

	2017	2016	Change	% change
Salaries and wages	12,218,294	10,197,651	2,020,643	19.8%
Directors' fees	2,942,000	1,330,000	1,612,000	121.2%
Social security charges	2,189,356	1,989,319	200,037	10.1%
Directors' and freelancers' social security charges	46,595	42,635	3,960	9.3%
Employee severance indemnity	709,253	526,946	182,307	34.6%
Cost of temporary contracts	13,248	102,247	(88,999)	(87.0%)
Other payroll and related costs	1,887,205	2,273,965	(386,760)	(17.0%)
Total	20,005,951	16,462,763	3,543,188	21.5%

The increase in payroll and related costs reflects the general rise in the number of employees used by the Group to carry out company business, sitting at an average of 249 staff at the date of this Report (average of 200 in 2016), divided into the following categories:

- ◆ 15 senior managers on average;
- ◆ 36 middle managers on average;
- ◆ 188 employees on average;
- ◆ 10 blue-collars on average.

Detail of employees serving at 31 December 2017 for the various categories, compared to the previous year, are also reported below.

	31.12.2017	31.12.2016
Senior managers	16	15
Middle managers	45	26
Employees	258	179
Total	319	220

The increase was due to both the acquisitions made during the year and the business development in the United Kingdom, as well as to the payment of some non-recurring bonuses paid in relation to the targets achieved.

The employee severance indemnity of EUR 709,253 takes into account the guidelines contained in IAS 19 and, during the financial year under review, the application of the said principle with the actuarial assumptions described in the subsequent note no. 37 resulted in a change in the actuarial gains reserve of EUR (89,834) booked to the statement of comprehensive income.

Other payroll and related costs include additional expenses connected with personnel management, such as those relating to the company crèche, personnel recruitment and training, the purchase of meal vouchers, the fees of the company doctor for mandatory medical check-ups and the management of cars granted as company benefits.

6. Amortisation/depreciation and impairment - EUR 11,310,268

	2017	2016	Change	% change
Amortisation and impairment of intangible assets	715,244	409,721	305,523	74.6%
Depreciation and impairment of property, plant and machinery	4,019,928	3,258,704	761,224	23.4%
Depreciation of investment property	240,206	240,206	0	0.0%
Impairment of other assets	25,490	190,536	(165,046)	(86.6%)
Impairment of trade receivables	6,229,400	7,000,000	(770,600)	(11.0%)
Impairment of other receivables	80,000	131,574	(51,574)	(39.2%)
Total	11,310,268	11,230,741	79,527	0.7%

The item increased overall by EUR 79,527, substantially in line with the previous year. With reference to receivables, the amount of EUR 6,229,400 relates to the impairment testing carried out on the Group loans portfolio during the year under review and only relates to the provision set aside following the evaluation of the receivables in the portfolio that have similar characteristics (cluster, unpaid ratio ecc), in line with Group's policies.

The impairment relating to other receivables for EUR 80,000 related to the presumed realisable value adjustment of receivables for contract indemnities relating to biomass supplies on the part of subsidiary Rena Energia S.r.l..

7. Provisions - EUR 2,000

	2017	2016	Change	% change
Provision for charges	2,000	2,000	0	(0.0%)
Total	2,000	2,000	0	(0.0%)

The provision of EUR 2,000 only relates to the amount set aside for costs accrued in relation to the dismantling of PV plants built by subsidiary Solcap Green S.r.l..

8. Other operating costs - EUR 2,258,961

	31.12.2017	31.12.2016 Restated	Change	% change
Taxes and duties	617,689	334,945	282,744	84.4%
Membership fees	98,969	62,002	36,967	59.6%
Sanctions, fines and penalties	415,180	1,237,833	(822,653)	(66.5%)
Contribution Antitrust Authorities	60,181	107,282	(47,101)	(43.9%)
Sundry charges	1,066,942	342,622	724,320	211.4%
Total	2,258,961	2,084,684	174,277	8.4%

The item "Sundry charges" mainly consists of the contribution paid to the Electricity and Gas Authority, while the remaining amount is made up of other non-deductible costs sustained by parent company Green Network S.p.A.. The remaining amount of "other operating costs" is made up of taxes/duties and fines and penalties imposed on the Group during the financial year under review.

9. Financial income (expense) from financial instruments measured at fair value - EUR (12,399)

The item is broken down as follows:

	2017	2016	Change	% change
Banco BPM shares	19,091	0	19,091	ns
CARISMI shares	(52,462)	0	(52,462)	ns
Banca Marche shares	0	71,243	(71,243)	(100.0%)
Veneto Banca shares	(6,887)	(2,486,579)	2,479,692	(99.7%)
Banca Etruria shares	0	45,848	(45,848)	(100.0%)
Imprebanca securities	0	(750)	750	(100.0%)
Mutual funds / Certificates of deposit	51,818	0	51,818	ns
Bonds	839	0	839	ns
Total	12,399	(2,370,238)	2,382,637	(100.5%)

The balance of EUR 12,399 is made up of the following amounts:

- ♦ EUR 19,091 relating to Banco BPM shares, sold during the year, of which 8,997 for the release of AFS reserve;
- ♦ EUR (52,462) relating to CARISMI shares, that include EUR (16,404) for the release of AFS reserve since the Group does not consider such value to be recoverable;
- ♦ EUR (6,887) in relation to the write-down of the equity shares held in Veneto Banca;
- ♦ EUR 51,818, including EUR 51,818 for the release of AFS reserve, formed in previous years, on the mutual funds sold during the year and EUR (10) related to the fair value of Certificates of deposit;
- ♦ EUR 839 relating to the Bonds of which EUR 1,530 as revaluation of Etruria and CARISMI securities and EUR (691) for the release of AFS reserve for the sale of BPER bonds.

10. Net profit (loss) from the sale of current and non-current operating assets - EUR (8,717)

	2017	2016	Change	% change
Green Hydro 2 S.r.l. shareholding	(7,147)	0	(7,147)	ns
Green Hydro 1 S.r.l. shareholding	0	(21,346)	21,346	(100.0%)
Receivables for Green Hydro 1 S.r.l. loans	(15,000)	(95,610)	80,610	(84.3%)
Shareholding in Converge S.r.l.	(16,570)	0	(16,570)	ns
Capital gains from disposals	30,000	0	30,000	ns
Total	(8,717)	(116,956)	108,239	(92.55%)

The item consists of the result from the measurement, in accordance with IFRS 5, concerning some non-current assets for which the Group has started operations for the related disposal. The amount of EUR 15,000 relates to the value adjustment made in order to adjust the book value of the loan to subsidiary Green Hydro 1 S.r.l. at its fair value set out in the preliminary contract of sale; the amount of EUR 7,147 consists of the fair value adjustment to the value of equity investment in Green Hydro 2 S.r.l., which was sold in August 2017, while the amount of EUR 16,570 consists of the fair value adjustment to the disposal of the equity investment in Converge S.r.l.. This item also includes an amount of EUR 30,000 relating to capital gains arising from the sale of assets.

11. Financial income - EUR 1,674,042

The item may be broken down as follows.

	2017	2016	Change	% change
Capital gains on shareholdings	0	0	0	ns
Income from equity investments in other companies	15,000	1,240	13,760	1,109.7%
Income from equity investments	15,000	1,240	13,760	1,109.7%
Interest on loans to subsidiaries	0	9,588	(9,588)	(100.0%)
Interest on loans to associated companies	27,158	28,506	(1,348)	(4.7%)
Interest on securities	42,343	118,421	(76,078)	(64.2%)
Interest on loans to other companies	3,919	15,990	(12,071)	(75.5%)
Capital gain from sale of securities	0	1,400	(1,400)	(100.0%)
Interest income from customers	1,771,790	2,129,406	(357,616)	(16.8%)
Current account interest income	1,446	6,818	(5,372)	(78.8%)
Other financial income	6,289	8,986	(2,697)	(30.0%)
Financial income	1,852,945	2,319,115	(466,170)	(20.1%)
Exchange gains and losses	(193,903)	(253,873)	59,970	(23.6%)
Total	1,674,042	2,066,482	(392,440)	(19.0%)

Financial income at 31 December 2017 showed a general reduction with respect to the balance in the previous year, as a result of lower interest income from customers.

Income from investments in other companies refers to the dividends received from Itaipower Energia S.r.l..

12. Financial expense - EUR 5,847,506

Details of the breakdown of this item are reported below.

	2017	2016	Change	% change
Capital losses on sale of securities	0	50	(50)	(100.0%)
Bank interest expense	783,847	1,095,879	(312,032)	(28.5%)
Interest expense on mortgages and loans	678,582	395,897	282,685	71.4%
Interest expense on factoring	612,971	191,048	421,923	220.8%
Interest due to other lenders	1,084,022	2,138,206	(1,054,184)	(49.3%)
Interest expense and charges on leasing	114,817	135,019	(20,202)	(15.0%)
Credit Rating access fee	728,013	780,143	(52,130)	(6.7%)
Sundry interest and expense	1,058,494	642,863	415,631	64.7%
Interest on settlement agreements	2,781	38,258	(35,477)	(92.7%)
Interest expense on shareholders' loans	52,233	104,030	(51,797)	(49.8%)
Interest expense on voluntary settlement	801	125	676	540.8%
Green certificate discounting	297,843	0	297,843	ns
Other financial expense	413,253	351,067	62,186	17.7%
TFR (employee severance indemnity) discounting	19,849	24,078	(4,229)	(17.6%)
Total	5,847,506	5,896,663	(49,157)	(0.8%)

This item was substantially in line with the previous year; specifically, there were an increase in sundry interest and expense and a reduction in interest to other lenders. The "sundry expense" relates to financial costs sustained for advances and credit lines granted and additional expenses for leases held by the Group.

The item "Interest due to other lenders" mainly includes interest paid to suppliers for deferred payments granted by them, which reduced by about half the amount compared to the previous year. The item "Green certificate discounting" relates to the discounting of receivables accrued on the PV

plant in Romania for green certificates that may be collected after 2025 as a result of changes in applicable regulations.

13. Share of income/(expense) deriving from equity investments valued using the equity method - EUR 51,927

This item includes the effects of the valuation using the equity method of investments in associates.

	2017	2016	Change	% change
Solergys	128,984	(131,865)	260,849	(197.8%)
Converge	0	(1,006)	1,006	(100.0%)
US Boreale	(1,365)	(1,664,497)	1,663,132	(99.9%)
JMS	(75,692)	(43,010)	(32,682)	76.0%
Total	51,927	(1,840,378)	1,892,305	(102.8%)

It should be noted that, the valuation of the equity investment in Solergys S.p.A. took place on the basis of the draft financial statements at 31 December 2017, while the valuation in US Boreale S.r.l. and in the joint venture JMS S.r.l. took into consideration the last accounting statement available i.e. the financial statements as at 31 December 2016. For more details, reference should also be made to note no. 19.

14. Taxation - EUR 1,261,649

Taxation for the year presents a negative balance totalling EUR 380,648. In compliance with IAS 12, details of the item are reported below.

	Amount
Current taxes	3,686,014
Taxes relating to previous years	(133,946)
Deferred tax liabilities/assets	(2,203,514)
Income (expense) from adoption of tax consolidation /transparency scheme	(86,905)
Total	1,261,649

The consolidating company and the companies Rena Energia S.r.l., Green Network Holding Rinnovabili S.r.l., Le Fate Turchine S.r.l. and Le Fate Turchine 2 S.r.l., Biogas Energy S.r.l. and Green Wind 2 S.r.l. applied the national tax consolidation option pursuant to articles 117 et seq. of Presidential Decree 917/1986, therefore transferring the tax result for the period for IRES purposes to the consolidating company SC Holding S.r.l. Therefore, the recognition of IRAP for the year involved the recording of a payable due to the tax authorities for taxes in the year, while the recognition of IRES for the year entailed the registration of a payable due to SC Holding for tax consolidation.

Explanatory notes to balance sheet items

15. Intangible fixed assets - EUR 23,639,915

Intangible fixed assets presented a net book value of EUR 23,639,915 and are broken down as follows:

	Software licences	Trademarks	Other intangible fixed assets	Total
Initial values at 31 December 2016	1,151,892	0	0	1,151,892
Changes at 31 December 2017				
- purchases	820,932	0	53,341	874,273
- disposals	0	0	0	0
- increases from acquisitions /mergers	1,092,995	8,378,429	12,857,570	22,328,994
- amortisation	(658,863)	(57)	(56,324)	(715,244)
- reclassifications	0	0	0	0
- write-downs	0	0	0	0
Total changes	1,255,064	8,378,372	12,854,587	22,488,023
Values at 31 December 2017	2,406,956	8,378,372	12,854,587	23,639,915
Historical cost	8,037,510	8,382,123	13,005,141	29,424,774
Accumulated amortisation at 31 December 2016	(2,213,987)	0	0	(2,213,987)
Accumulated amortisation from acquisition/mergers	(2,757,704)	(3,694)	(94,230)	(2,855,628)
Amortisation in the period	(658,863)	(57)	(56,324)	(715,244)
Accumulated amortisation at 31 December 2017	(5,630,554)	(3,751)	(150,554)	(5,784,859)
Values at 31 December 2017	2,406,956	8,378,372	12,854,587	23,639,915

This item increased by EUR 22,488,023, mainly as a result of the trademarks and other intangible fixed assets relating to the corporate acquisitions that took place during the year.

The purchases made during the year, equal to EUR 874,273, mainly related to the software licences used by the Group, involving the software used to manage accounting/billing, treasury/finance and customers, which were also implemented during the year, as a result of the aforesaid corporate acquisitions. In relation to these purchases, an amount of EUR 293,606 relates to the purchase of new software and licenses for invoicing and managing electricity and gas items for the UK market and of electricity sales activities on the UK market.

The amount of EUR 8,378,372 relating to trademarks concerns the allocation of the purchase price of the business units acquired during the year.

Other intangible fixed assets mainly include the customer relationships relating to customers acquired following the aforesaid acquisitions, consisting of an amount of EUR 12,426,838 relating to parent company and an amount of EUR 418,818 relating to subsidiary Energrid S.r.l.. These assets derive from the allocation of higher values relating to the two business units acquired during the year.

The decreases are due to the process of amortisation calculated on the basis of the useful life of the assets estimated by the Group.

16. Goodwill – EUR 26,504,123

The value of EUR 26,504,123 relates to higher value of acquisitions of business units that took place during the year, which is not attributable to other balance sheet items.

The balance of goodwill was tested at the level of CGU, which is identified as the unit generating independent cash flows to which goodwill relates and which is monitored for internal management purposes on the part of the Group. Specifically, the cash generating unit has been identified, which:

- ◆ represents the minimum level within the business to which goodwill relates and based on which it is monitored for management control purposes;
- ◆ is expected to benefit from the aggregation synergies;
- ◆ can be reported as a set of clear, reliable and measurable information flows.

The CGU's recoverable value has been estimated according to criteria complying with the principle of prudence and the relevant accounting standards (IAS 36), as well as in accordance with the valuation practices required by IFRS. Specifically, the recoverable value intended as the "value in use" of the CGU has been identified by discounting operating cash flows (DCF Model) extrapolated from economic and financial plans for a reference period from 2018 to 2022. Cash flow forecasts have been determined by using, in particular, operating cash flows, and considering, for terminal value, a «normalised» cash flow, without any long-term growth factor. The rate used to discount cash flows, equal to 9.9%, has been determined on the basis of market information of cost of money and specific risks of the relevant CGU (Weighted Average Cost of Capital, WACC). Testing has shown that the CGU's recoverable value is higher than net invested capital (including goodwill). Therefore, there was no need to adjust the goodwill value recognised in the accounts at the end of the abovementioned impairment test.

17. Property, plant and machinery - EUR 31,969,685

This item includes the value of the buildings that the Group owns for the carrying out of its corporate activities and is made up as follows.

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Initial values at 31 December 2016	1,109,254	28,618,747	13,747	4,817,435	34,559,185
Changes at 31 December 2017					
- acquisitions	0	124,958	10,941	773,635	909,534
- disposals	(7,446)	0	0	(25,490)	(32,936)
- increases from acquisitions/mergers	0	287,324	0	266,508	553,832
- depreciation	(14,069)	(2,274,295)	(9,581)	(1,721,984)	(4,019,929)
- reclassifications	0	370,000	146,521	(516,521)	0
- Other changes	0	0	0	0	0
Total changes	(21,515)	(1,492,013)	147,881	(1,223,852)	(2,589,499)
Values at 31 December 2017	1,087,739	27,126,733	161,629	3,593,583	31,969,685
Historical cost	1,151,050	37,880,733	63,376	12,584,267	51,679,427
Accumulated depreciation at 31 December 2016	(49,242)	(8,782,716)	(40,158)	(4,626,500)	(13,498,616)
Accumulated depreciation from acquisitions/mergers	0	(66,989)	0	(2,125,679)	(2,192,668)
Other changes	0	0	1,471	0	1,471
Accumulated depreciation of the year	(14,069)	(2,274,295)	(9,581)	(1,721,984)	(4,019,929)
Accumulated depreciation at 31 December 2017	(63,311)	(11,124,000)	(48,268)	(8,474,163)	(19,709,742)
- reclassifications	0	370,000	146,521	(516,521)	0
Values at 31 December 2017	1,087,739	27,126,733	161,629	3,593,583	31,969,685

The item relating to land and buildings, which presented a net book value of EUR 1,087,739, is composed, for EUR 697,971, of the value of the areas of land on which plants for the production of electricity from renewable sources sit, and of an operating building for EUR 389,768 located in the biomass plant situated in Avigliano Umbro. Disposals relating to the item Land and buildings, equal to EUR 7,446, refer to the sale of the subsidiary company Green Hydro 2 that took place during the year, on which the land owned at the hydroelectric plant stood.

The item relating to plant and machinery mainly includes the value of plants for the production of electricity from renewable sources. Details of the item are reported below.

	Value as at 31.12.2016	Acquisitions	Increases from acquisitions/ mergers	Depreciation	Reclassifications	31.12.2017
Avigliano Umbro Biomass plant	5,403,673	0	0	(491,624)	0	4,912,049
Sirone photovoltaic plants	3,009,939	975	0	(204,771)	0	2,806,143
Bosisio photovoltaic plants	2,828,371	0	0	(179,565)	0	2,648,806
Photovoltaic park in Romania	11,078,976	19,780	0	(741,213)	0	10,357,542
Sant'Agata di Puglia wind farm	1,972,983	0	0	(115,000)	0	1,857,983
Lanciano Biomass plant	4,321,432	104,203	0	(441,631)	0	3,984,004
Other plants	3,373	0	287,324	(100,491)	370,000	560,206
Total	28,618,747	124,958	287,324	(2,274,295)	370,000	27,126,733

The difference of EUR 1,492,013 compared to the previous year was mainly due to normal depreciation. Regarding the item "Other plants", it should be noted that, following the acquisitions that took place in 2017, the value of the item increased by EUR 287,324, while there was a reclassification for EUR 370,000 for the fixed assets in progress during the year.

Furthermore, note that the plant for the production of electricity from renewable sources (wind) located in the Palombara district, Municipality of Sant'Agata di Puglia, Foggia, is the object of a 12-year finance lease stipulated by the Group with the company Alba Leasing S.p.A. The value of this plant, net of accumulated depreciation, is EUR 1,857,983. In particular, the plant is the object of an "existing building" property lease, whose characteristics are outlined below.

Characteristics			
Date stipulated	18/06/2013	Initial 'maxicanone' (larger initial lease payment) envisaged	690,000
Total consideration	2,833,305	Monthly fees	14,988
Purchase option	23,000	Leasing rate	5.17%
Duration in years	12	P31 index	
Number of instalments	144	Indexing actual 3m Euribor (365)	

Lastly, it should be noted that the dismantling and removal costs that will be incurred in relation to plants that generate electricity from renewable sources were estimated on the basis of the provisions of the contractual agreements in place concerning the Sirone and Bosisio photovoltaic plants.

The item relating to other assets can be represented as follows:

	Value as at 31.12.2016	Acquisitions	Disposals	Increases from acquisitions/ mergers	Amortisation/depreciation/write- downs	Reclassifications	31.12.2017
- Office furniture and furnishings	443,170	151,951	0	15,509	(984,918)	1,203,479	829,191
- Non-depreciated furniture and furnishings	593,599	59,828	0	0	0	0	653,427
- Mobile phones	8,348	6,993	0	1,193	(10,245)	0	6,289
- Equipment	15,180	2,852	0	0	(4,286)	0	13,746
- Cars	33,317	55,482	(25,490)	2,917	(21,267)	0	44,959
- Electronic office machines and for energy certification	365,261	79,635	0	246,889	(220,850)	280,000	750,935
- Leasehold improvements	1,158,561	416,894	0	0	(480,417)	200,000	1,295,038
- Fixed assets in progress	2,200,000	0	0	0	0	(2,200,000)	0
Total	4,817,435	773,635	(25,490)	266,508	(1,721,983)	(516,521)	3,593,584

The item relating to other assets recorded a net decrease of EUR 1,223,852, mainly due to normal depreciation.

Reclassifications were mainly due to the fixed assets in progress, equal to EUR 2,200,000 made up of EUR 1,350,000 for furniture and furnishings, EUR 280,000 for Electronic office machines, EUR 370,000 relating to installations described above for the new premises where, from February 2017, corporate activities will be carried out, and EUR 200,000 for leasehold improvements under way. Furthermore, the item "furniture and furnishings decreased by EUR 146,521 as a result of the classification of some assets in the item "Industrial and commercial equipment".

In order to finance the furniture, installations and equipment, totalling EUR 2,000,000, the Group signed a lease agreement with Alba Leasing S.p.A., the main characteristics of which are reported below.

Contract 01098378/001 Alba Leasing S.p.A.

Presumed cost	2,000,000.00	Total consideration	2,050,778.45
Months	60	Rate	2.11%
Anticipated fee	700,000	Redemption	20,000.00
Periodic fee	22,894.55	Preliminary investigations	300.00
Fee months	59	Indexing	Actual 3M Euribor
Monthly instalment	22,895	Annual instalments in advance	274,735

Finally, as previously stated, it should be noted that reclassifications relating to the item industrial and commercial equipment in the amount of EUR 146,521 relate to equipment that were included in the item "other assets" in past years. The item "other changes", equal to EUR 1,471, relate to accumulated depreciation of equipment at 31 December 2016 of the company Green Wind 1 S.r.l., which was deconsolidated in 2017.

18. Investment property - EUR 8,014,167

The item includes the value of the properties owned by the Group, held for investment purposes.

	31.12.2017	31.12.2016	Change
Building in Terracina – San Felice	1,713,422	1,737,539	(24,117)
Building in Terni - Via Bramante	136,396	140,956	(4,560)
Building in Rome - Paisiello	5,382,231	5,563,743	(181,512)
Building in Rome - Via Cavaliere	782,118	812,135	(30,017)
Total	8,014,167	8,254,373	(240,206)

Below are the details of each asset.

	Land	Historical cost	Accumulated depreciation - 2016	NBV 2016	Changes in the year	Deprec. 2017	Accumulated depreciation- 2017	NBV 2017	Fair value 31.12.2017
Rome - Paisiello 1	677,845	4,415,400	(1,066,411)	4,026,834	0	132,462	(1,198,873)	3,894,372	3,900,000
Rome - Cavalieri	0	1,000,572	(188,436)	812,135	0	30,017	(218,453)	782,118	782,200
Terni	37,074	151,996	(48,114)	140,956	0	4,560	(52,674)	136,396	169,000
Terracina	178,000	1,607,773	(48,234)	1,737,539	0	24,117	(72,350)	1,713,422	1,715,000
Rome - Paisiello 3 -4	0	1,635,009	(98,100)	1,536,909	0	49,050	(147,151)	1,487,859	1,490,000
	892,919	8,810,750	(1,449,295)	8,254,373	0	240,206	(1,689,501)	8,014,167	

The fair value of properties was determined by an independent expert, appointed by the Group, based on the values contained in the database of property prices of the Real Estate Market Observatory of the Italian Revenue Agency. The values taken from the appraisals did not, however, reveal any indicators of impairment.

In relation to the properties under review, the information required by IAS 40 is reported in the table below.

Description	31.12.2017
Rentals receivable	392,092
Utility costs	(7,118)
Maintenance costs	(103,217)
Insurance costs	(2,212)
Commission payable	(9,054)
Registration tax	(1,341)
Property taxes and duties (IMU [municipal property tax], TASI [taxes on indivisible services], TARI [waste tax])	(32,979)
Condominium expenses	(4,905)
Total	231,266

19. Equity investments - EUR 987,209

The item includes the value of equity investments held by the Group in subsidiaries, associated companies and joint ventures and in other companies as detailed below.

	31.12.2017	31.12.2016	Change
Equity investments in subsidiaries	10,000	10,000	0
Equity investments in associated companies and joint ventures	967,209	2,769,135	(1,801,926)
Equity investments in other companies	10,000	10,000	0
Total	987,209	2,789,135	(1,801,926)

The amount of EUR 10,000 relating to investments in subsidiaries refers to the shareholding held by direct subsidiary company Green Network UK Plc in the company Green Network Power & Gas Ltd, currently not operational and in liquidation and therefore, as already described, not consolidated.

With reference to investments in associates, the change for the year derives from their valuation using the equity method. As already described above, it is noted that for Solergys S.p.A. the valuation was

carried out on the basis of the book values of the investee company as at 31 December 2017 while the values relating to US Boreale S.r.l. reflect its book values as at 31 December 2016.

The quota held in Converge S.r.l. (associated company) has been reclassified, for the purposes of this Report, to "Non-current assets held for sale", since the quota held in this company was sold in March 2018.

The details of the individual companies are provided below:

Company	Registered Office	Share Capital	Shareholders' equity	Profit (loss) for the year	% equity investment	Book Value
Solergys S.p.A.	Rome	120,000	654,786	280,045	49.00%	320,845
US Boreale	Rome	10,200	1,136,345	(4,094)	33.33%	378,744

Investments in associates, measured using the equity method, include the value of EUR 267,620 relating to the 50% equity investment in a joint venture having as its object a photovoltaic system.

Company	Registered Office	Share Capital	Shareholders' equity	Profit (loss) for the year	% equity investment	Book Value
JMS S.r.l.	Brescia	50,000	535,239	(151,385)	50.00%	267,620

The information shown in the table above relates to the most recent statements available, i.e. the JML S.r.l. financial statements approved at 31 December 2016.

Finally, the value of EUR 10,000 relating to investments in other companies relates to the equity investment held by the Group in Italtower Energia, for which a dividend of EUR 15,000 has been accounted for. The value of said equity investment is unchanged compared to the previous year's value.

20. Receivables from parent companies, subsidiaries, associates and joint ventures - EUR 4,845,782

The item includes the non-current receivables due to the Group from subsidiaries, holding companies and associated companies.

	31.12.2017	31.12.2016	Change
Receivables due from subsidiaries	111,083	91,084	19,999
<i>of which for loans</i>	111,083	91,084	19,999
<i>of which other receivables</i>	0	0	0
Receivables due from associated companies	1,430,085	1,430,085	0
<i>of which for loans</i>	1,430,085	1,430,085	0
<i>of which other receivables</i>	0	0	0
Receivables due from parent companies	3,304,614	3,455,771	(151,157)
<i>of which for loans</i>	3,286,038	3,437,195	(151,158)
<i>of which other receivables</i>	18,576	18,576	0
Total	4,845,782	4,976,940	(131,158)

Receivables from subsidiaries, equal to EUR 111,083, relate to the residual amount of the receivable for the loan to the subsidiary Green Wind 1 S.r.l., which has not been consolidated for the purposes of this report.

Receivables from associated companies refer to the outstanding loan to the associated companies Solergys S.p.A. and US Boreale S.r.l., reported below in more detail.

Counterparty	Loan	31/12/2016	Increases	Decreases	31/12/2017
Solèrgys S.p.A.	Interest-bearing	1,420,085	0	0	1,420,085
US Boreale	Non-interest bearing	10,000	0	0	10,000
TOTAL DUE FROM ASSOCIATED COMPANIES		1,430,085	0	0	1,430,085

The loan to US Boreale S.r.l. is non-interest bearing while the loan to Solèrgys S.p.A. is interest-bearing and the interest accrued during the year under review totalled EUR 27,158.

Receivables from parent companies include a receivable for a loan granted to SC Holding S.r.l.. During the financial year under review the decrease related to the consideration for the acquisition from SC Holding S.r.l. of total shares of Sacri Real Estate S.p.A..

Counterparty	Loan	31/12/2016	Increases	Decreases	31/12/2017
SC Holding S.r.l.	Non-interest bearing	3,437,195	0	151,157	3,286,038
TOTAL DUE FROM HOLDING COMPANIES		3,437,195	0	151,157	3,286,038

Other receivables from parent companies relate to receivables arising from tax consolidation.

21. Deferred tax assets - EUR 8,585,325

The item includes receivables for prepaid taxes that will be recoverable in subsequent years.

	31.12.2017	31.12.2016	Change
Deferred tax assets	8,585,325	8,554,702	30,623
Total	8,585,325	8,554,702	30,623

Details of these receivables are reported below:

	31.12.2017
Prepaid taxes on differences on statutory and tax amortisation of photovoltaic plants	123,842
Prepaid taxes on interest expense	907,221
Prepaid taxes on trademarks	165,790
Prepaid taxes on advertising expenses	517,379
Prepaid taxes from first-time application of IAS/IFRS	1,244,173
Prepaid taxes from derivatives revaluation reserves and from AFS reserves	1,172,439
Prepaid taxes from IAS/IFRS adjustment	(592,637)
Prepaid taxes on non-deductible allowance for doubtful receivables	2,230,249
Prepaid taxes on provision for risks	19,200
Prepaid taxes on goodwill - former GN L&G	649,607
Prepaid taxes from tax losses	2,174,139
Prepaid taxes on write-down of fixed assets	16,904
Prepaid taxes from adjustment at the new IRES tax rate of 24%	(42,981)
Total	8,585,325

22. Tax credits - EUR 5,084,332

	31.12.2017	31.12.2016	Change
Receivables for UTF (finance office)	877,938	920,458	(42,520)
Receivables for VAT	3,991,313	3,914,599	76,714
Receivables for tax disputes	120,370	120,370	0
Receivables for refund requests	51,276	51,276	0
Other tax receivables	43,435	43,435	0
Total	5,084,332	5,050,138	34,194

The item is composed primarily of receivables for UTF taxes of EUR 877,938, VAT credits that will be recovered through the issuing of the appropriate credit note at the end of the bankruptcy proceedings that concern some company customers, and EUR 120,370 in receivables deriving from an ongoing tax dispute with the Tax Authorities in relation to the payment of a tax demand.

23. Other non-current assets - EUR 12,693,074

	31.12.2017	31.12.2016	Change
Receivables for security deposits	8,215,979	997,193	7,218,786
Receivables for grants pursuant to Law No. 388/2000	100,000	100,000	0
Green certificates	2,933,443	1,741,659	1,191,784
Other receivables	1,443,652	68,500	1,375,152
Total	12,693,074	2,907,352	9,785,722

The item is mainly made up of receivables for security deposits granted for the performance of company business, whose increase is attributable to the amount of security deposits of the business unit Energrid acquired by the Parent Company during the year, and of receivables for green certificates accrued by the Romanian photovoltaic park at the date of this Report. The share of these certificates, according to the Romanian legislation, may be collected as from 2025; as mentioned in note no. 12, these receivables were discounted at a rate of 1.75%.

Other non-current receivables mainly include the amount of prepaid expenses relating to the fees accrued in financial years commencing after 31 December 2018.

24. Inventories - EUR 2,475,043

	31.12.2017	31.12.2016	Change
Inventories of finished products and goods for resale	1,801,933	321,617	1,480,316
Raw, ancillary and consumable materials	673,110	349,308	323,802
Total	2,475,043	670,925	1,804,118

The value of EUR 1,801,933 relating to inventories of finished products refers to the value of the gas stored, as at 31 December 2017 at special sites and not sold at the end of the financial year. The inventories were valued using the weighted average cost method compared to the net realisable value.

The value of EUR 673,110 relates to the increase in value using the weighted average cost criterion of inventories of raw materials, consumables and finished products for the Avigliano Umbro and Lanciano plants, respectively equal to EUR 30,750 and EUR 642,360.

25. Trade-related receivables - EUR 394,699,635

Below is the breakdown of the item.

	31.12.2017	31.12.2016	Change
Trade receivables (customers)	244,213,091	138,019,036	106,194,055
Allowance for doubtful receivables	(32,565,339)	(10,348,229)	(22,217,110)
Customers for invoices to be issued	162,883,432	68,958,054	93,925,378
Credit notes to be issued	(13,142,808)	0	(13,142,808)
Bank, subject to collection	33,311,259	8,774,806	24,536,453
Total	394,699,635	205,403,667	189,295,968

Receivables were adjusted in order to take account of impairment as a result of the impairment tests

performed in compliance with international accounting standards. Details of its changes in the period are shown below.

	Amounts
Balance at 31 December 2016	10,348,229
Allowance for doubtful receivables from acquisitions	21,636,982
Uses during the year	(5,621,787)
Provision for the year	6,201,915
Total	32,565,339

The provision was used to cover the losses on receivables recorded in 2017 and for which the Group had already estimated losses in previous years. The provision of EUR 6,000,000 was made as a result of the impairment process carried out by the Group on a portfolio of customers homogeneous in nature and characteristics.

With reference to receivables from customers, it is noted that the Group has outstanding net loans due from Tradecom S.p.A., subject to insolvency proceedings from November 2014 (bankruptcy), for a total amount of approximately EUR 15.7 million. Based on the documentation available at the date of this Report, the Group, with the support of its independent legal advisors, is reasonably confident of the successful outcome of the recovery of the receivable.

The receivables relating to 'Banks, subject to collection' refer to commercial invoices submitted to banks for advances/discounts but which at the date of this Report had not yet been paid.

"Receivables for invoices to be issued" represent the allocations for services rendered at the date of this Report. "Credit notes to be issued" are applied as direct decreases in receivables at the date of this Report, as they relate directly to this item.

It should also be noted that, as guarantee for several trade-related receivables, the Company received bank sureties totalling EUR 5,000,000 for the supply of electricity and gas from customer Riva Acciaio S.p.A..

26. Receivables from parent companies, subsidiaries, associates and joint ventures - EUR 28,416,887

Details of the item are reported below.

	31.12.2017	31.12.2016	Change
Green Network Power & Gas Ltd	3,840	0	3,840
Green Wind 1 S.r.l.	5,808	2,275	3,533
Receivables due from subsidiaries	9,648	2,275	7,373
Sòlergys S.p.A.	419,210	325,053	94,157
Receivables due from associated companies	419,210	325,053	94,157
US Boreale	12	0	12
JMS S.r.l.	7,213,661	9,287,287	(2,073,626)
Receivables due from associated companies	7,213,673	9,287,287	(2,073,614)
SC Holding S.r.l.	20,774,356	9,369,991	11,404,365
Receivables due from holding companies	20,774,356	9,369,991	11,404,365
Total	28,416,887	18,984,606	9,432,281

Receivables due from subsidiaries and associated companies derive mainly from commercial

transactions, while receivables due from the holding company SC Holding S.r.l. primarily relate to tax consolidation and, to a lesser extent, the provision of services by the holding company.

Receivables from subsidiaries include a receivable from the subsidiary Green Wind 1 S.r.l. which, for the purposes of this Report, has not been consolidated.

27. Loans to banks and other financial institutions - EUR 10,258,914

The item includes loans to banks and other financial institutions connected with trade-related receivables submitted for discount and factoring which had still not been collected at the reporting date and the amount of time or pledged bank deposits.

	31.12.2017	31.12.2016	Change
Receivables due from factoring companies	2,839,077	1,723,563	1,115,514
Time bank deposits	7,419,837	8,744,807	(1,324,970)
Total	10,258,914	10,468,370	(209,456)

28. Tax credits - EUR 25,527,196

The balance of the item is broken down as follows.

	31.12.2017	31.12.2016	Change
Receivables due from the Tax Authorities for direct taxes	113,748	482,009	(368,261)
Receivables for UTF taxes	16,551,964	7,273,536	9,278,428
Receivables due from tax authorities for VAT	7,544,360	1,190,358	6,354,002
Other tax receivables	1,317,124	1,259,154	57,970
Total	25,527,196	10,205,057	15,322,139

The balance is mainly made up of receivables due from the tax authorities for UTF taxes and receivables relating to VAT. The increase was mainly attributable to the receivables claimed from the tax authorities for advances paid on excise duties due on gas and electricity consumption and to the VAT receivables arising from the Energrid business unit acquired.

29. Derivatives - EUR 54,486,263

The item includes the positive fair value of the derivative financial instruments that the Group holds for hedging purposes for the purchase of commodities.

	31.12.2017	31.12.2016	Change
Derivative financial instruments	54,486,263	18,810,083	35,676,180
Total	54,486,263	18,810,083	35,676,180

This is mainly made up of OTC derivatives and contracts for differences (entered into based on ISDA standards) for which the fair value was determined by applying level two as provided for by IFRS 13. More specifically, the amount of EUR 54,486,263 is made up of EUR 3,343,671 relating to the derivative financial instruments held by the Group for hedging purposes in line with the guidelines contained in IAS 39 on hedge accounting, the change in fair value of which has been stated in cash hedging

reserve, and EUR 51,142,592 held by the Group for trading purposes or that do not meet the conditions for being classified as hedging instruments, the change in fair value of which has been booked directly to the income statement. Of these derivative financial instruments, EUR 26,627,623 are held by the consolidating company and EUR 24,514,969 are held by the subsidiary Green Network UK PLC which operates on behalf of the Group on energy trading platforms.

30. Financial assets available for sale - EUR 3,964,282

	31.12.2017	31.12.2016	Change
- Certificates of deposit / Savings vouchers	1,499,990	5,900,000	(4,400,010)
- Bonds	1,464,083	1,109,183	354,900
- Investment funds	0	1,177,301	(1,177,301)
- Other securities	1,000,209	88,316	911,893
Total	3,964,282	8,274,800	(4,310,518)

This item decreased by EUR 4,310,518 compared to value at 31 December 2016, mainly due to the sale of the certificates of deposit, investment funds and some equity securities/bonds, which took place during the year under review, as well as to the fair value adjustment to the value of bonds and other securities. For more details on the item, reference should be made to the Parent Company's Report, since the entire amount relates to Green Network S.p.A..

31. Other current assets - EUR 18,673,463

Other current assets are detailed below.

	31.12.2017	31.12.2016	Change
Suppliers - energy advances	100,000	100,000	0
Suppliers - advance account	14,602,556	11,521,078	3,081,478
Other receivables due from employees	12,625	2,210	10,415
Incentive tariff	416,798	247,859	168,939
Advances to suppliers for plants under construction	0	140,557	(140,557)
Other receivables	3,541,484	952,930	2,588,554
Total	18,673,463	12,964,634	5,708,829

The item relating to suppliers - advance account, up over the previous year, can be represented as follows.

	31.12.2017	31.12.2016	Change
Charges on sureties	1,787,176	823,959	963,217
Insurance	40,035	558,826	(518,791)
Interest expense on settlement agreements	0	38	(38)
Insurance and car expenses	4,823	20,673	(15,850)
Leasing	0	26,986	(26,986)
Equipment rental	77,473	155,452	(77,979)
Advertising expenses	0	9,918	(9,918)
Commissions	11,033,074	8,001,903	3,031,171
Sales consulting	73,828	37,362	36,466
Financial consulting	0	0	0
Sundry consulting	53,933	29,485	24,448
Software licences	155,203	138,449	16,754
Costs for the provision of services	9,665	54,697	(45,032)

Registration tax	57,403	71,684	(14,281)
Rentals payable	328,953	482,183	(153,230)
Bank charges	10	372	(362)
Proceeds from derivatives	0	487,105	(487,105)
Other	980,980	621,986	358,994
	14,602,556	11,521,078	3,081,478

As regards this item, the most significant part was composed of advances recognised for commissions directly related to the Group's business and sales strategy.

The item relating to other receivables increased during the year, which was mainly attributable to the allocations by Green Network S.p.A. of the realised amount of revenues from trading derivatives accrued during the year, but not yet credited to the Company's current accounts as at 31 December 2017.

Furthermore, the item other receivables comprises the receivable due to the Group from ATA Cooperativa, in connection with the Lanciano biogas plant, equal to EUR 74,482 net of the provision for depreciation allocated to cover losses that could occur in the future equal to EUR 236,575. This provision did not record any change during the year.

32. Cash and cash equivalents - EUR 35,310,420

The values booked to the financial statements reflect the actual amount of cash on hand and at banks as at the end of the year under review and are broken down as follows.

	31.12.2017	31.12.2016	Change
Bank and post office deposits	35,283,159	10,625,375	24,657,784
Cash and cash equivalents	27,261	24,115	3,146
Total	35,310,420	10,649,490	24,660,930

As stated in note no. 27 the company holds additional liquid assets classified in financial receivables since they are restricted.

33. Non-current assets held for sale – EUR 1,799,590

For the current financial year, the item has a negative balance of EUR 110,410 in relation to the value of the equity investment held by the Group in Green Hydro 1 S.r.l. and the related loan value. As already described in this report, the sale of the company's quotas was completed in January 2018.

Furthermore the item comprises an amount of EUR 1,900,000 relating to the quota held in Converge S.r.l., unconsolidated company, which was disposed of in March 2018, was reclassified to "Non-current assets held for sale" for the purposes of this Report and which was measured at the fair value of the sale, being in line with purchase cost.

	31.12.2017	31.12.2016	Change
Green Hydro 1 S.r.l. shareholding	10,200	10,200	0
Green Hydro 1 S.r.l. loan	(110,610)	(95,609)	(15,001)
Converge S.r.l. shareholding	1,900,000	0	1,900,000
Total	1,799,590	(85,409)	1,884,999

34. Assets classified as held for sale - EUR 780,249

This amount refers to the following assets:

	Amount
Land	12,838
Tax credits	130,654
Receivables for prepaid taxes	44,428
Current receivables from others	583,921
Non-current receivables from others	7,076
Cash and cash equivalents	1,333
Total	780,249

These assets relate to assets held by the subsidiary Green Hydro 1 S.r.l., previously consolidated and treated for the purposes of these accounts, in accordance with IFRS 5 since the related quotas were disposed of in January 2018.

35. Shareholders' equity - EUR 16,881,236

Details of the item are reported below.

	Share Capital	Legal reserve	Other reserves and profits (losses) carried forward	FTA reserve	Net profit (loss) for the year	Group total	Minority interests	Total shareholders' equity
Balances as at 1 January 2015	15,636,000	955,050	(3,350,124)	16,387,195	(1,361,799)	28,266,323	(337,574)	27,928,750
Changes in shareholders' equity	(0)	106,000	(20,090,399)	0	1,361,799	(18,622,601)	626,063	(17,996,538)
Net results as at 31/12/2015					289,936	289,936	(271,417)	18,520
Balances as at 31 December 2015	15,636,000	1,061,050	(23,440,552)	16,387,195	289,936	9,933,660	17,073	9,950,732
Changes in shareholders' equity		66,986	5,191,033		(289,936)	4,968,082	113,343	5,081,425
Net results as at 31/12/2016			0		92,144	92,144	94,069	186,213
Balances as at 31 December 2016	15,636,000	1,128,036	(18,249,490)	16,387,195	92,144	14,993,885	224,485	15,218,370
Changes in shareholders' equity		302,051	(736,759)	(297,122)	(92,144)	(823,974)	238,840	(585,133)
Net results as at 31/12/2017					2,160,872	2,160,872	87,128	2,248,000
Balances as at 31 December 2017	15,636,000	1,430,087	18,986,250	16,090,074	2,160,872	16,330,783	550,453	16,881,236

The share capital totalling EUR 15,636,000 is fully paid in and is represented by 15,636,000 ordinary shares with a par value of EUR 1 each.

Details of other reserves are reported below.

	31.12.2017	31.12.2016	Change
Extraordinary reserve	9,689,858	3,950,884	5,738,974
Reserve for valuation at equity	6,297,595	6,297,595	(0)
Capital contributions	13,394	13,394	0
Actuarial gain reserve	(273,999)	(184,165)	(89,834)
Profits (losses) carried forward	(37,065,554)	(29,293,790)	(7,771,764)
Derivative valuation reserve	2,315,963	930,473	1,385,489
AFS reserve	36,487	32,216	4,271
Rounding reserve	6	0	4
Translation reserve	0	3,901	(3,901)
Total	(18,986,250)	(18,249,490)	(736,761)

With reference to changes in shareholders' equity items, the following should be noted:

- ◆ The amount of EUR 1,385,489 relating to the derivatives valuation reserve reflects the change in fair value at 31 December 2017 for derivatives held for hedging purposes;
- ◆ The amount of EUR 4,271 relating to the AFS reserve is connected to the change in fair value, at 31 December 2017, of financial instruments classified by Group management in the "AFS - available for sale" portfolio, as well as the reversal from said reserve of changes in fair value recognised in previous years and reversed to the income statement in the current financial year in view of the fact that they are deemed to be irrecoverable;
- ◆ The amount of EUR (89,834) relating to the actuarial gains reserve includes the differences arising from the valuation of TFR liabilities according to the criteria set out in IAS 19 for the financial year under review, as described in detail in note 37 below.

36. Long-term loans - EUR 19,939,088

This item includes the non-current share of existing loans.

	31.12.2017	31.12.2016	Change
Long-term portion of bank loans	7,975,675	10,307,893	(2,332,218)
Banca Popolare di Milano	3,559,387	4,423,770	(864,383)
Banca Pop. Bergamo	106,129	189,972	(83,843)
GE Capital Interbanca	1,328,995	2,001,615	(672,620)
Banca Popolare di Vicenza	0	1,008,002	(1,008,002)
Banca Alpi Marittime	573,562	0	573,562
Banca Popolare di Spoleto	190,227	0	190,227
Mediocredito Italiano	2,217,375	2,684,534	(467,159)
Due to other lenders	5,527,119	5,205,938	321,181
Alba Leasing S.p.A.	1,954,407	1,701,538	252,869
Feed S.p.A.	0	4,400	(4,400)
Simest S.p.A.	3,500,000	3,500,000	0
Dell Financial	72,712	0	72,712
Due to minority shareholders	6,436,294	6,828,017	(391,723)
Nomar Enterprise S.r.l.	45,196	123,830	(78,634)
Feed S.p.A.	156,283	156,283	0
Genera S.p.A.	1,499,836	1,557,570	(57,734)
Rossi Roberto	19,854	0	19,854
X-9 SRLS	9,926	0	9,926
Gold Sun Europe S.r.l.	4,612,488	4,867,844	(255,356)
Free Energia S.p.A.	92,711	92,711	0
Doro Re S.r.l.	0	29,779	(29,779)
Total	19,939,088	22,341,848	(2,402,760)

The following table contains the details of the outstanding bank loans and shows the current and non-current amounts, portion of payables due beyond five years, rate and maturity.

Company	Bank	Nominal value	Due as at 21.12.2107	Due within 12 months	Due beyond 12 months	Payable due beyond five years	Rate	Expiry date
Green Network S.p.A.	Banca Popolare di Spoleto	1,500,000	940,931	750,704	190,227	0	1.75% + 6M Euribor 365	10/03/2019
Green Network S.p.A.	Banca Popolare di Vicenza	3,000,000	1,008,002	1,008,002	0	0	1.75%	30/06/2018
Green Network S.p.A.	MPS	500,000	166,667	166,667	0	0	2.7% + 6M Euribor 360	30/09/2018
Green Network S.p.A.	BPER	500,000	125,679	125,679	0	0	1.45% + 3M Euribor 365	24/02/2018
Green Network S.p.A.	Banca Popolare di Spoleto	250,000	250,000	250,000	0	0	1.15%	10/03/2018
Green Network S.p.A.	Banca Popolare di Spoleto	250,000	50,149	50,149	0	0	2.5% + 6M Euribor 365	10/07/2018
Green Network S.p.A.	BPM	2,000,000	1,250,000	1,000,000	250,000		1.80% + 3M Euribor 360	31/03/2019
Green Network S.p.A.	Banca Pop. Bergamo	700,000	187,685	81,556	106,128	0	1.50% + 3M Euribor 360	08/02/2020
Green Network S.p.A.	GE Capital Interbanca	4,000,000	1,990,635	661,639	1,328,996	0	3.50% + 3M Euribor 360	31/12/2020
Solcap Green S.r.l.	Banca Popolare di Milano	2,800,000	1,431,212	293,969	1,137,243	0	5.76%	31/05/2022
Solcap Green S.r.l.	Banca Popolare di Milano	2,500,000	1,027,455	336,585	690,871	0	5.14%	30/11/2020
Rena Energia S.r.l.	Mediocredito Italiano	4,500,000	2,691,059	473,684	2,217,375	355,263	6% + 3M Euribor 360	30/09/2023
Energrid S.r.l.	Banca Alpi Marittime	3,000,000	1,330,338	756,776	573,562	0	1.2% + 6M Euribor 365	29/07/2019
Biogas Energy Società Agricola S.r.l.	Banca Popolare di Milano	3,400,000	1,970,700	489,427	1,481,273	0	3.75% + 3M Euribor	30/09/2021
			14,420,512	6,444,837	7,975,675	355,263		

With reference to bank financing, it should also be borne in mind that:

- the loans to BPM, for a nominal amount of EUR 2,800,000 and EUR 2,500,000, are guaranteed by the factoring with recourse of all the amounts receivable due from the GSE (or rather those deriving from the feed-in tariff) accrued for the Sirone and Bosisio plants;
- to guarantee the loan received from Mediocredito Italiano S.p.A., the Group transferred the receivables due from GSE S.p.A., arising from the conversion entered into with it in relation to the granting of an all-inclusive tariff.

Payables backed by secured guarantees are as follows:

- first mortgage of EUR 8,000,000 recognised on the property assets in Via Paisiello in Rome to guarantee the loan granted by GE Capital Interbanca;
- first mortgage of EUR 1,400,000 recognised on the property assets in Via Cavalieri in Rome to guarantee the loan granted by Banca Popolare di Bergamo;

- ♦ mortgage of EUR 7,875,000 recognised on the company properties located in the municipality of Avigliano Umbro, Terni, special lien on the properties, machinery, plants and tools owned for EUR 7,785,000 to guarantee the loan received from Mediocredito italiano S.p.A..

Below are financial and non-financial covenants relating to loans:

- ♦ Net Debt/EBITDA of less than 3.75 on SC Holding S.r.l. for the loan of Green Network S.p.A. with GE Capital Interbanca;
- ♦ A deposit of EUR 380,000 on the current account and filing of the separate and consolidated financial statements by 31 July of each year on the loan of Rena Energia S.r.l. with Mediocredito Italiano;
- ♦ A surety of EUR 1,632,000 issued by Green Network S.p.A. for the loan of Biogas Energy Società Agricola S.r.l. with Banca Popolare di Milano.

Due to other lenders is composed primarily of:

- ♦ the non-current share of debt that the Group has in respect of Simest S.p.A. in relation to the commitment for the repurchase of minority shares in the company Green Network Holding Rinnovabili S.r.l.;
- ♦ the debt that the Group has in respect of the company Alba Leasing S.p.A. under the financial leasing contract relating to the plant for the production of electrical energy from renewable sources (wind) in the municipality of Sant'Agata di Puglia and the debt connected to the contract concluded by the consolidating company for the financing of equipment, fixtures and furnishings for the new registered offices.

Payables due to minority shareholders, amounting to EUR 6,436,294, are composed of payables for loans that some Group companies have vis-a-vis minority shareholders and which are considered deferred as regards repayment.

37. Employee severance indemnity and other employee benefits - EUR 2,888,843

The item is made up exclusively of Group liabilities for employee severance indemnity vis-a-vis its employees.

	31.12.2017	31.12.2016	Change
Employee severance indemnity and other employee benefits	2,888,843	1,567,014	1,321,829
Total	2,888,843	1,567,014	1,321,829

The following table shows the change in the provision as at the date of this Report.

	Amount
Opening balance	1,567,014
Balance from acquisitions	925,435
Use for leavers	(203,389)
Provision for the year	599,783
Balance at 31 December 2017	2,888,843

The discounting of liabilities, as per IAS 19, was carried out by an actuary appointed by the company who took into account the following actuarial assumptions:

- ◆ the probabilities of death were deduced from the Italian population, by age and gender, as calculated by ISTAT in 2000 and reduced by 25%;
- ◆ the probability of termination of service due to absolute and permanent disability was calculated, by age and gender, according to the disability tables currently used by the insurance sector;
- ◆ as regards the pension age for the general assets item, the first requisite for retirement accepted by the Compulsory General Insurance was taken into account, assuming that employees' INPS contributions began, at the latest: at the age of 25 for the current managers, 23 for current executives, 20 for current white-collar staff and 18 for blue-collar staff.
- ◆ the valuation takes into account the variations in the retirement age introduced into national law by recent reforms;
- ◆ the probability of termination of service due to resignation or dismissal was determined, as at the valuation date, at a turn-over rate of 10% per annum;
- ◆ the probability of an advance payment request was estimated at 3.00% per annum, with the size of the advance equal to 60% of the TFR remaining in the business.

With regard to wage growth, an all-inclusive wage trend of 2.70% per annum was used for all the professional categories. The estimated inflation rate used for the valuations was 1.50% per annum. The discount rate used for the valuations was 1.3022% per annum as it stands at 31 December 2017 for bond securities issued by AA-rated European companies for durations of more than 10 years.

The change in the actuarial gains reserve is shown below.

	Amount
Reserve as at 31.12.2016	184,165
Provision for the year	118,203
Recognition of OCI taxes	(28,369)
Total as at 31.12.2017	273,999

38. Provisions for risks and charges (non-current portion) - EUR 13,323,827

Details of the item are reported below.

	31.12.2017	31.12.2016	Change
Provision for deferred taxation	9,710,304	3,125,273	6,585,031
Provision for risks and charges	3,613,523	1,440,000	2,173,523
Total	13,323,827	4,565,273	8,758,554

The change in the provisions in the year under review is as follows.

	Provision for deferred taxes	Provision for risks and charges
Opening balance	3,125,273	1,440,000
Balances from acquisitions	6,645,298	3,601,523
Provision for the year	529,837	2,000
Uses during the year	(590,104)	(1,430,000)
Balance at 31 December 2017	9,710,304	3,613,523

The provision for deferred taxes, amounting to EUR 9,710,304 is allocated with reference to the income which will be taxed in future periods, mainly relating to the acquisition of the Tradeinv and Energrid business units.

	31.12.2017
Default interest income - Green Sud S.r.l.	192,445
Default interest income - GN L&G 2015	474,730
Default interest income - Green Network S.p.A. before 2015	954,237
Default interest income - Green Network S.p.A. 2015	603,240
Default interest expense - Green Network S.p.A. 2016	(22,791)
Default interest expense - Green Network S.p.A. 2017	364,504
Property revaluation - Sacri Re S.r.l. 2008	199,679
Taxes on valuation reserve of derivatives	226,645
IAS 17 financial leasing - Green Wind 2 S.r.l.	(77,015)
Transfer of Energrid/Tradeinv business units	6,645,298
Adjustment to the reserve for OCI taxes for TFR and AFS	14,773
Other situations deriving from IAS/IFRS transition	134,559
Total	9,710,304

The provision for risks and charges recorded a decrease of EUR 1,430,000 following the use made of the amounts set aside in 2015 for the dispute relating to the import of electricity from the French border in 2008. The increase related to the balances of acquisitions/mergers and included an amount of EUR 450,206 relating to the provision for agents' supplementary clientele indemnity and an amount of EUR 3,151,317 relating to other provisions for risks, recognised in the accounts following the acquisition of the Energrid and Tradeinv business segments. The provision of EUR 2,000 only relates to the allocation of costs accrued in relation to the decommissioning of the PV plants built by subsidiary Solcap Green S.r.l..

39. Tax liabilities- EUR 905,833

Details of the item are reported below.

	31.12.2017	31.12.2016	Change
Tax disputes	11,465	11,465	0
Payables for settlement agreements	894,368	1,788,734	(894,366)
Total	905,833	1,800,199	(894,366)

Tax payables due after one year include payables for tax disputes of EUR 11,465 and EUR 894,368 relating to agreements reached with the Tax Authorities connected to tax disputes relating to the years 2008 and 2009, which were repaid in instalments over roughly 4 years.

40. Other non-current liabilities - EUR 9,490,738

	31.12.2017	31.12.2016	Change
Guarantee deposits	9,490,738	5,964,750	3,525,988
Total	9,490,738	5,964,750	3,525,988

The item is mainly made up of payables for guarantee deposits received from customers in connection with the supply of electricity and gas.

41. Short-term loans - EUR 149,562,711

The item is composed of the following payables, which are due to be repaid in the next 12 months.

	31.12.2017	31.12.2016	Change
Current account payables	39,400,976	11,240,027	28,160,949
Due for advances	14,198,472	9,919,705	4,278,767
Payables due to factoring companies	89,066,842	23,314,587	65,752,255
BPER loan	125,679	0	125,679
Banca Popolare di Milano	2,119,981	2,132,292	(12,311)
Mediocredito Italiano	473,684	473,684	0
Banca Pop. Bergamo	81,556	81,073	483
GE Capital Interbanca	661,639	666,667	(5,028)
MPS	166,667	0	166,667
Banca Alpi Marittime	756,776	0	756,776
Banca Popolare di Spoleto	1,050,853	0	1,050,853
Banca Popolare di Vicenza loan	1,008,002	1,984,669	(976,667)
Alba Leasing S.p.A.	255,388	854,000	(598,612)
Payables due to Simest for repurchase of Solcap Green S.r.l. quotas	0	1,304,000	(1,304,000)
Other financial payables	196,196	185,725	10,471
Total	149,562,711	52,156,429	97,406,282

In general, the item has increased by EUR 97,406,282 with respect to the balance of the previous year, due mainly to the increase in payables due to factoring companies. Said payables are recorded for an amount equal to the advances received (net of commission) following the factoring of trade receivables with recourse. Note that during the period some reverse factoring operations were started, which entailed the transformation of some trade payables into financial payables.

Payables for mortgages and loans refer to the short-term portion of mortgages and loans already described in previous note no. 36, while current account overdrafts and due for advances represent the amounts due to banks and financial institutions for current account overdrafts and current account advances.

The payable due to Alba Leasing S.p.A. relates to the current share of the payable relating to the leasing contract signed by the Group for the financing of furniture, equipment and installations for the new head office at 7, Viale della Civiltà Romana, Rome.

42. Trade-related payables - EUR 403,994,722

The item is broken down as follows.

	31.12.2017	31.12.2016	Change
Trade payables	250,292,507	136,838,202	113,454,305
Payables for invoices to be received	111,202,064	54,587,320	56,614,744
Advances	42,500,151	15,616,110	26,884,041
Total	403,994,722	207,041,632	196,953,090

These relate to Group payables due to suppliers as a result of sales transactions. The value reported represents the fair value of these obligations net of allowances and discounts agreed by suppliers.

Note that during the period some reverse factoring operations were started, which entailed the transformation of some trade payables into financial payables for EUR 31.5 million.

43. Payables to parent companies, subsidiaries, associates and joint ventures - EUR 16,574,237

The item includes the Group's payables due to subsidiaries and associated companies and the holding company, as detailed below.

	31.12.2017	31.12.2016	Change
SC Holding S.r.l.	9,365,299	10,017,391	(652,092)
Payables due to parent companies	9,365,299	10,017,391	(652,092)
GN P&G	8,509	8,509	0
Wind 1	0	0	0
Payables due to subsidiaries	8,509	8,509	0
Solergys S.p.A.	5,603	5,603	0
US Boreale S.r.l.	9,691	13,691	(4,000)
Payables due to associated companies	15,294	19,294	(4,000)
JMS S.r.l.	7,185,135	9,156,087	(1,970,952)
Payables due to Joint Ventures	7,185,135	9,156,087	(2,627,044)
Total	16,574,237	19,201,281	(2,627,044)

This item mainly is composed of payables due to SC Holding S.r.l. relating to transactions connected to tax consolidation and payables due to JMS refer to commercial relations related to energy trading activities.

44. Tax payables - EUR 21,751,117

The item is broken down as follows:

	31.12.2017	31.12.2016	Change
Due for taxation	537,528	1,029,516	(491,988)
Due to tax authorities for withholdings on employment and similar income	391,404	526,965	(135,561)
Due to tax authorities for withholdings on freelance income	374,164	132,692	241,472
Due to tax authorities for Gas	0	3,573,750	(3,573,750)
Due to tax authorities for UTF (finance office)	19,368,612	4,391,278	14,977,334
Payables for settlement agreements	894,367	1,084,714	(190,347)
Payables for VAT	184,955	103,550	81,405
Other tax payables	87	282,498	(282,411)
Total	21,751,117	11,124,963	10,626,154

This item is composed primarily of payables for direct taxes and withholdings still to be paid, payables for gas and UTF (finance office) excise duties, as well as of the short-term portion of settlement agreements reached with the Tax Authorities in previous years.

The increase in the item, as for the corresponding tax credits, is mainly attributable to higher payables to the Tax Authorities for advances connected to the excise duties on the consumption of gas and electricity sold.

45. Derivatives - EUR 27,348,449

This item includes the negative fair value of financial derivatives that the Group holds for hedging purposes for the purchase of commodities.

	31.12.2017	31.12.2016	Change
Derivative financial instruments	27,348,449	15,540,364	11,808,085
Total	27,348,449	15,540,364	11,808,085

This is mainly made up of OTC derivatives and contracts for differences (entered into based on ISDA standards) for which the fair value was determined by applying level two as provided for by IFRS 13. More specifically, the amount of EUR 27,348,449 is made up of EUR 90,000 relating to the derivative financial instruments held by the Group for hedging purposes in line with the guidelines contained in IAS 39 on hedge accounting, the change in fair value of which has been stated in cash hedging reserve, and EUR 27,258,449 held by the Group for trading purposes or that do not meet the conditions for being classified as hedging instruments, the change in fair value of which has been booked directly to the income statement. Of these derivative financial instruments, EUR 6,810,098 are held by the consolidating company and EUR 20,448,351 are held by the subsidiary Green Network UK PLC which operates on behalf of the Group on energy trading platforms.

46. Other current liabilities - EUR 15,732,092

The item is broken down as follows.

	31.12.2017	31.12.2016	Change
Due to INPS (National Social Security Institute)	724,690	404,592	320,098
Due to INAIL (National Institute for Insurance against Accidents at Work)	5,222	16,974	(11,752)
Bilateral Body	1,706	1,759	(53)
Payables due to pension and insurance funds	252,355	599,072	(346,717)
Due to social security and welfare institutions	983,973	1,022,397	(38,424)
Due to employees and directors	3,559,601	1,256,260	2,303,341
Payables per guarantee deposits	64,166	63,166	1,000
Charges on derivative financial instruments	0	0	0
Payables for Rai Subscription	2,069,119	2,045,638	23,481
Sundry payables	9,055,233	4,119,676	4,935,557
Other payables	14,748,119	7,484,740	7,263,379
Total	15,732,092	8,507,137	7,224,955

This item is composed primarily:

- ◆ EUR 983,973 relating to payables due from the company to social security institutions and entities relating to its personnel;
- ◆ EUR 3,559,601 relating to payables due to employees and directors for fees pertaining to 2017;

- ◆ EUR 2,069,119 for payables related to the RAI subscription bill collected by the company and to be paid to the Tax Authorities;
- ◆ EUR 9,055,233, mostly relating to customers to which supplies are no longer provided, with a negative balance at 31 December 2017, which have been reclassified to other payables and to the payable to Energia e Territorio for the business unit lease for the purposes of this Report.

47. Liabilities classified as held for sale - EUR 322,661

This item includes the liabilities of the company Green Hydro 1 S.r.l., which was sold in January 2018.

	Amount
Shareholders' equity	(71,339)
Provisions for deferred taxation	32,523
Shareholder loans	296,300
Due to other lenders	6,000
Trade payables	21,223
Other current liabilities	37,955
Total	322,661

OTHER INFORMATION

Disclosures relating to financial instruments and the risk management policy

Below is a breakdown of the financial assets and financial liabilities required by IFRS 7 subdivided into the categories defined in IAS 39.

	Receivables and loans	Financial instruments held to maturity	Financial instruments available for sale	Derivative financial instruments		Book value	Notes to the financial statements
				for trading purposes	for hedging purposes		
Non-current assets	17,538,856	0	0	0	0	17,538,856	
Other equity investments	0	0	0	0	0	0	
Financial assets from parent company, subsidiaries and associated companies	4,845,782	0	0	0	0	4,845,782	20
Financial assets from third parties	12,693,074	0	0	0	0	12,693,074	23
Current assets	487,359,319	0	3,964,282	51,142,592	3,343,671	545,809,864	
Trade receivables from customers	394,699,635	0	0	0	0	394,699,635	25
Trade receivables from related parties	0	0	0	0	0	0	
Financial assets from parent company, subsidiaries and associated companies	28,416,887	0	0	0	0	28,416,887	26
Financial assets from third parties	28,932,377	0	3,964,282	51,142,592	3,343,671	87,382,922	27 - 29 - 30 - 31
Cash and cash equivalents	35,310,420	0	0	0	0	35,310,420	32
Total	504,898,175	0	3,964,282	51,142,592	3,343,671	563,348,720	

	Liabilities at fair value	Liabilities at amortised cost	Derivative financial instruments		Book value	Notes to the financial statements
			for trading purposes	for hedging purposes		
Non current liabilities	15,037,961	4,901,127	0	0	19,939,088	
Due to banks	4,776,086	3,199,589	0	0	7,975,675	36
Financial payables to third parties	3,825,581	1,701,538	0	0	5,527,119	36
Other financial liabilities toward third parties	6,436,294	0	0	0	6,436,294	36
Current liabilities	582,806,324	3,057,438	27,258,449	90,000	613,212,211	
Due to banks	146,309,077	2,802,050	0	0	149,111,127	41
Financial payables to third parties	196,196	255,388	0	0	451,584	41
Trade-related payables	403,994,722	0	0	0	403,994,722	42
Financial liabilities to parent company, subsidiaries and associated companies	16,574,237	0	0	0	16,574,237	43
Other financial liabilities toward third parties	15,732,092	0	27,258,449	90,000	43,080,541	45 - 46
Total	597,844,285	7,958,565	27,258,449	90,000	633,151,299	

Fair value of financial assets and liabilities

For the fair value of securities listed on active markets, reference was made to the fair value recorded on these markets at the reference date of this Report, while in the case of securities not listed on an active market, the fair value was determined using the models and valuation techniques prevailing on the market taking into consideration different inputs from prices quoted but observable directly or indirectly.

It should be noted that for the trade receivables and payables with agreed maturity within the year, the fair value was not calculated since it is essentially in line with the relative book value.

It should also be noted that the fair values were not calculated for financial assets and liabilities for which the fair value cannot be determined objectively.

Types of financial risks and related activities

Credit risk

Credit risk represents the Group's exposure to potential losses resulting from the non-fulfilment of the obligations assumed by commercial and financial counterparties. As far as the Group goes, the exposure to credit risk is primarily related to commercial sales activities on the free electricity and gas market.

In order to mitigate said risk, the Group is equipped with a rating analysis system for the evaluation of customers before the start of new supply relations, including through appropriate agreements with the credit insurance company which carries out a preliminary evaluation of the customer credit limit, a key factor in supply contracts involving medium-low volumes. Furthermore, the customer verification and reminder procedures for past due amounts were again employed, in order to constantly improve financial operations, which is one of the most important aspects of the activity performed.

In relation to the turnover generated, credit risk is mitigated due to the collection terms, included in the range of 30-60 days, and the careful management of the portfolio and its constant monitoring mean that the company has no significant uncontrolled exposures.

Lastly, the Group stipulated an insurance policy with the company Euler Hermes Italia S.p.A. to cover the risk of trade-related receivables. The total receivables insured amounts to a maximum of approximately EUR 108 million.

It should also be noted that the Group primarily conducted non-recourse factoring, with the transfer of commercial risks to factors, and received bank sureties for EUR 5,000,000 to guarantee the correct collection of the associated trade-related receivables.

Lastly, it should be noted that, in compliance with the accounting standards, the Group continuously carries out the valuation and determination of the Allowance for doubtful receivables in order to cover its associated losses in value.

Liquidity risk

Liquidity risk is the risk of an entity having difficulty in fulfilling the obligations associated with financial liabilities to be settled by delivering cash or cash equivalents or another financial asset. Liquidity risk management activity is targeted at containing the risk of the company's available financial resources not being sufficient to cover the financial and commercial obligations according to the pre-established terms and maturity dates.

The strategic objective is to ensure the Group has sufficient credit lines at any moment to respect the financial maturity dates of the relevant subsequent period.

In any case, the Group is believed to be subject to limited exposure to liquidity risk thanks to its capacity to generate cash flows, and limited exposure to the risk of changes in cash flows, in consideration of the fact that the Group's debt is insignificant and largely limited to the advance payment of trade receivables from customers.

Regulatory risk

One potential source of risk is the constant changes in the reference regulatory context, which affects the functioning of the market, tariff plans, the levels of service quality required and technical-operational obligations. In fact, the area of risk is related to the current technical complexity of the sector which requires constant updating, as regards the resolutions of the competent Authority which regulates the sector.

In this regard, the consolidating company is committed, both on its own behalf and in favour of other Group companies, to constantly monitoring the legislation which regulates the sector in order to promptly acknowledge any changes, targeted at minimising the economic impact of any changes.

Market risk

Given its operating segment, the Group is exposed to market risks, mainly to the risk of fluctuations in interest rates, the risk of fluctuations in commodity prices, and, to a lesser extent, in exchange rates, which are mitigated by adequate control mechanisms put in place by the management.

The risk analysis and management are carried out based on a control process that provides for the performance of activities all over the year. The related reports to the Top Management are provided on a monthly and daily basis.

Market Risk means the risk relating to unexpected effects on the value of the portfolio assets due to changes in market conditions.

In this context some cases might give rise to **Price Risk** and **Volume Risk**, which are defined as follows:

- ✓ **Price Risk**: is associated with changes in commodity prices arising when there is a mismatch between price indices for purchases and sales of Electricity and Natural Gas;
- ✓ **Volume Risk**: is associated to changes in the volumes that are actually consumed by end customers compared to volumes forecast in contracts of sale (sales profiles) or, in general, with the balancing of portfolio positions.

Risk limits are defined so as:

- ✓ To minimise overall risk;
- ✓ To ensure the necessary operating flexibility in procurement of commodities and hedging activities.

The commodity risk management and mitigation are functional to achieving the economic and financial targets of the Green Network Group, as stated in the budget-plan; specifically:

- ✓ Protecting the Gross profit from unexpected events and unfavourable short-term market shocks that might have an impact on revenues or costs;
- ✓ Identifying, measuring, managing and represent risk exposure;
- ✓ Reducing risks by preparing and applying appropriate internal control checks, procedures, IT systems and expertise.

Forward contracts (for physical purchases or sales of commodities and/or hedging derivatives) are entered into to meet the expected requirements arising from the contracts held in the portfolio.

Risk exposure is evaluated based on the following activities:

- ✓ Recording all transactions relating to physical and/or financial quantities in appropriate books broken down by commodity (e.g. Electricity, Gas), purpose (Trading or purchase and sale on wholesale markets, Portfolio Management, Sale to end customers) and type of transactions (physical or financial);

- ✓ Analysing purchases and sales carefully, limiting open positions, i.e. the exposure of physical positions of purchase and sale of each commodity;
- ✓ Creating reference scenarios (prices, indices) and control of exposures.

Interest rate risk

The Group is primarily exposed to interest rate risk in relation to medium/long-term loans payables, indexed at a floating rate, which are, nonetheless, assessed as limited based on the trend in the financial markets, as well as in consideration of the fact that the duration of such advances is limited.

Exchange rate risk

The Group is active mainly in the Italian market and, at any rate, in Eurozone countries and, therefore, its exposure to exchange rate risk deriving from the different currencies in which it operates and the translation of financial statements of foreign subsidiaries is extremely limited.

Furthermore, at the date of this report, the Group does not have any loans denominated in a non-euro currency.

Risk of fluctuation in commodity prices

The Group, operating essentially as an intermediary in the dispatching of energy and gas both nationally and internationally, is active in the trading and sale of electricity and gas to different types of end customers (energy-intensive, small & medium, etc.). The Group's trading activities for the financial year under review were carried out mainly by the subsidiary Green Network UK PLC, which has its head office in London, and, to a lesser extent, by the consolidating company Green Network S.p.A., which has its head office in Rome.

The Group, not being a producer of electricity and gas with the exception of the share of electricity from renewable sources (marginal compared to sales volumes), must obtain its supplies on the electricity and gas market, thereby exposing it to the market risk associated with price volatility. This risk also exposes the Group to the related liquidity risk linked to the fact that in order to ensure the supply to end customers of the contractually-agreed amount of electricity and gas it has to advance large sums of money for the purchase of commodities. In order to cope with this risk, the Group enters into derivative contracts that enable it in most cases to fix the future price of purchases of energy and gas.

The main financial derivative instruments used by the Group are the following:

- ◆ operations on the electricity market:
 - derivatives with underlying NSP;
 - derivatives with underlying power other than NSP;
- ◆ operations on the gas market:
 - derivatives with underlying TTF;
 - Derivatives with underlying UK gas (NBT), minimal as in the start-up phase.

The differentials relating to flows connected to these derivative financial instruments are generally adjusted monthly.

In this regard, the Group has established internal policies and procedures for the management of the risk of commodity price volatility and the related management and accounting representation of derivative financial instruments. Specifically, the aim of the transaction to hedge the risk of the NSP (National Single Price) is to fix the cost of a portion of future variable-price purchases of electricity represented by the NSP index for the reference period in question, in order to fulfil the fixed-price supplies provided by the Group.

This is generally achieved through the stipulation of contracts for differences ("hedging instruments") that allow the Group to regulate a variable amount indexed to the NSP on the basis of a fixed value established at the time of stipulating the contract (Buy position). Derivatives taken out for hedging purposes are grouped together in a hedging portfolio consisting of derivatives which, once effectiveness testing has been carried out and formal Hedge Documentation has been prepared pursuant to IAS 39, are designated as hedging operations. As regards inclusion in the financial statements, the fair values of the derivatives in the portfolio (for the portion that is effective) are added to a specific Cash Flow Hedge reserve (OCI) while for the non-effective portion they are recognised directly in profit or loss.

The hedging strategy pursued by the Group uses a "Bottom Layer" approach which consists in identifying a portion ("Layer") that is lower than the total amount, considered almost certain and not reformulated according to changes in the volumes forecast over time, unless these do not fall within the Layer itself. For the year under review, the hedging portfolio is made up exclusively of Buy derivatives hedging Layers; once established at inception, hedges are generally not reviewed until the derivatives reach maturity.

With reference to effectiveness testing, prospective effectiveness testing is carried using the "critical terms comparison" approach aimed at attesting to the high prospective effectiveness of the hedging relationship by verifying correspondence with the main characteristics of the hedged item and the hedging instrument. Retrospective effectiveness testing, on the other hand, is carried out using the Dollar-Offset method and the hypothetical derivative method.

The table below shows the comparison between the overall monthly volumes of the hedging portfolio and the future electricity purchase forecasts produced as at the reporting date (31 December 2017).

Period	Jan. 18	Feb. 18	Mar. 18	Apr. 18	May 18	Jun. 18	Jul. 18	Aug. 18	Sep. 18	Oct. 18	Nov. 18
Hedged portion (%)	17%	16%	17%	9%	8%	8%	8%	11%	10%	10%	10%
Forecast Hedged Item (MWh)	416,569	404,176	425,608	345,444	400,121	416,308	395,180	296,274	333,534	340,833	335,402
Total volume Hedging Portfolio (MWh)	70,680	63,840	70,585	32,400	33,480	32,400	33,480	33,480	32,400	33,525	32,400

The table below lists the main information required by international accounting standards for the derivative contracts included in the hedging portfolio.

Inception date	Derivative Type	Profile	Effective date	Termination date	Hourly energy qty	Fixed price	Total volume	Residual volume	Fair Value at 31.12.2017	Derivative valuation
27/11/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	5	60,25	10,795	10,795	59,78	(5,411)
27/11/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	10	60,15	21,590	21,590	59,78	(8,662)
28/11/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	5	59,98	10,795	10,795	59,78	(2,442)
19/09/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	49,90	43,800	43,800	54,43	197,292
09/10/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	49,85	43,800	43,800	54,43	199,482
11/12/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	10	60,25	21,590	21,590	59,78	(10,821)
15/12/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	10	61,95	21,590	21,590	59,78	(47,524)
19/12/2017	SWAP OTC	Baseload	01/01/2018	31/03/2018	10	60,45	21,590	21,590	59,78	(15,139)
03/06/2016	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	40,70	43,800	43,800	54,43	600,252
13/01/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	44,80	43,800	43,800	54,43	420,672
01/03/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	43,50	43,800	43,800	54,43	477,612
08/06/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	44,85	43,800	43,800	54,43	418,482
24/07/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	44,25	43,800	43,800	54,43	444,762
09/08/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	45,25	43,800	43,800	54,43	400,962
14/09/2017	SWAP OTC	Baseload	01/01/2018	31/12/2018	5	50,20	43,800	43,800	54,43	184,152
										3,253,670

IFRS 7 and IFRS 13 require that the classification of financial instruments measured at fair value be carried out on the basis of the quality of the input sources used to determine the fair value itself. As already described at the beginning of this section, for the purposes of determining the fair value, reference is made to Level 2 referred to in IFRS 13, which uses methodologies and instruments to determine the fair value based on different inputs from prices quoted in an active market, but observable directly or indirectly on the market.

The following table illustrates the fair value hierarchy for the Group's financial assets and liabilities valued at fair value on the basis of valuation techniques that use as reference parameters observable on the market (Level 2).

	31.12.2017	31.12.2016
Derivative assets	54,486,263	18,810,083
Derivative liabilities	27,348,449	15,540,364
AFS instruments	3,964,282	8,274,800

Related-party transactions

In line with the relevant Group policies, the economic, equity and financial relations in place with related parties as at 31 December 2017 and 31 December 2016 are reported below, in accordance with the disclosure required by IAS 24. These relate to transactions entered into in the normal course of business, settled under conditions established contractually by the parties in line with ordinary market practice.

TRANSACTIONS WITH RELATED PARTIES YEAR-ENDED 31.12.2017		Equity investments	Receivables for loans	Trade-related receivables	Receivables for tax consolidation	Payables for tax consolidation	Trade and financial payables	Sundry payables	Total balance sheet transactions
Holding companies									
	SC Holding S.r.l.	-	3,286,037	-	9,298,821	8,314,797	-	596,000	21,495,655
Non-consolidated subsidiaries									
	Green Wind 1 S.r.l.	-	111,084	5,809	-	-	-	-	116,893
	Green Network Power & Gas S.r.l.	10,000	-	3,840	-	-	8,509	-	22,349
Associated companies									
	Converge	1,900,000	-	-	-	-	-	-	1,900,000
	Solergys	320,845	1,420,085	419,222	-	-	5,603	-	2,165,755
	US Boreale	378,744	10,000	-	-	-	13,691	-	402,435
Joint Ventures									
	JMS	267,620	-	7,213,661	-	-	7,185,134	-	14,666,415
Other companies									
	Italpower Energia S.r.l.	10,000	-	-	-	-	-	-	10,000

TRANSACTIONS WITH RELATED PARTIES YEAR-ENDED 31.12.2017		Revenues for sales	Other revenue and income	Consumption of materials and services	Other costs	Revaluations/write-downs of equity investments	Interest income from loans	Other financial income	Total transactions
Holding companies									
	SC Holding S.r.l.	408	-	-	-	-	-	-	408
Non-consolidated subsidiaries									
	Green Wind 1 S.r.l.	3,058	-	-	30	-	-	-	3,088
	Green Network Power & Gas S.r.l.	-	-	-	-	-	-	-	-
Associated companies									
	Converge	-	-	-	-	16,570	-	-	16,570
	Solergys	99,864	-	-	-	128,984	-	27,158	256,005
	US Boreale	14,500	-	-	-	1,365	-	-	15,865
Joint Ventures									
	JMS	25,876,512	-	25,992,113	-	75,692	-	-	51,792,933
Other companies									
	Italpower Energia S.r.l.	-	-	-	-	-	-	-	-

TRANSACTIONS WITH RELATED PARTIES YEAR- ENDED 31.12.2016		Equity investments	Receivables for loans	Trade-related receivables	Receivables for security deposits due after	Receivables from tax consolidation	Payables for tax consolidation	Trade and financial payables	Sundry payables	Total balance sheet transactions
Holding companies										
	SC Holding S.r.l.	-	3,437,194	89,746	-	9,280,245	9,346,391	671,000	-	22,824,576
Non-consolidated subsidiaries										
	Green Wind 1 S.r.l.	-	91,084	2,275	-	-	-	-	-	93,359
	Green Network Power & Gas S.r.l.	10,000	-	-	-	-	-	8,509	-	18,509
Associated companies										
	Converge	1,916,570	-	-	-	-	-	-	-	1,916,570
	Solergys	191,862	1,420,085	325,053	-	-	-	5,603	-	1,942,603
	US Boreale	-	-	-	-	-	-	13,691	-	13,691
Joint Ventures										
	JMS	343,312	-	9,287,287	0	0	0	9,156,087	-	18,786,686
Other companies										
	Itaipower Energia S.r.l.	10,000	-	-	-	-	-	-	-	10,000

TRANSACTIONS WITH RELATED PARTIES YEAR- ENDED 31.12.2016		Revenues for sales	Other revenue and income	Consumption of materials and services	Revaluations/write-downs of equity investments	Interest income from loans	Other financial income	Total transactions
Holding companies								
	SC Holding S.r.l.	5,618	-	300,000	-	-	731	306,349
Non-consolidated subsidiaries								
	Green Wind 1 S.r.l.	3,000	-	-	-	2,276	-	5,276
	Green Network Power & Gas S.r.l.	-	-	-	-	-	-	-
Associated companies								
	Converge	-	-	-	-	-	(1,664,497)	(1,664,497)
	Solergys	103,529	-	-	-	28,506	(131,865)	169
	US Boreale	-	-	-	-	-	(1,006)	1,006
Joint Ventures								
	JMS	27,700,066	-	27,769,805	-	-	(43,010)	55,426,861
Other companies								
	Itaipower Energia S.r.l.	-	-	-	-	-	-	-

These relations represent transactions in place with non-consolidated Group subsidiaries, joint ventures and associated companies and relate primarily to:

- ◆ financial transactions, represented by loans;
- ◆ tax relations connected to the tax consolidation system in place between some Group companies;
- ◆ sales relations connected mainly to the energy market sector.

The relations with the holding company SC Holding derive predominantly from financial transactions and transactions connected to tax consolidation.

Disputes, outstanding matters and contingent liabilities

- ◆ During financial year 2014, Green Network S.p.A. and Green Network Luce & Gas S.r.l., merged by incorporation into Green Network S.p.A. in 2015, were inspected by the Guardia di Finanza (Italian Tax Police) across 2009-2013, concerning certain transactions relating to the physical trading activity of electricity put in place by the Company with certain counterparties, as suppliers or customers. Following these inspections, the companies received a report on findings, for which in-depth and complex briefs and observations were produced by an authoritative professional, in order to highlight the groundlessness of the objections made by the inspectors. To date, the Company has received assessment notices for VAT and Direct Taxes, with reference to tax periods from 2009 to 2011, and the related penalty notices, which it has contested before the Provincial Tax Commission. The company Green Network S.p.A., also as the merging entity of Green Network Luce & Gas and based on the opinions received over the years, believes that, owing to the absence of any prejudice for the Tax Authorities and for any other interested party, the risk with reference to the overall dispute and to the joint assessment of the plurality of claims for different reasons, with reference to the same facts subject matter of the dispute, is remote and uncertain and therefore, did not deem it necessary to enter any risk provision. It should be noted in this regard that on 30 June 2016, the Provincial Tax Commission of Rome, with Ruling 19904/50/16 filed on 13 September 2016, fully and peremptorily approved the appeals by the two companies against the assessment notices for the year 2009, recognising the full legitimacy of the physical trading operations carried out; furthermore, the other third-party companies, which were also involved in the same case, challenged the tax assessment notices served on them before the competent Tax Commissions: to date 11 judgments have been issued in favour of the taxpayer companies. The Revenue Agency initially filed an appeal against judgment 19904/50/16, but it subsequently submitted, together with Green Network S.p.A., a request for deferment (which was granted) while seeking an amicable settlement of the dispute.
- ◆ On 26 June 2015, the company Green Network Luce & Gas received two assessment notices (one relating to VAT and IRAP and the other to IRES) in which some transactions entered into with a commercial operator were contested, despite having already been subject, however, to a specific and positive assessment during the course of other assessments that took place in previous years. On 1 July 2016, the Provincial Tax Commission of Rome, with Ruling 21181/47/16 filed on 26 September 2016, partially upheld the company's arguments. The incorporating company Green Network S.p.A. therefore lodged an appeal against the increased IRES and IRAP taxes contested by the Office. The incorporating company, supported by the opinions received from the professionals concerned, considers the risk connected with the dispute to be possible.
- ◆ In 2005, the parent company imported energy from Switzerland, by stipulating a purchase contract with Aar e Ticino SA di Elettricità (now Alpiq). In order to comply with the applicable regulations, the parties agreed that the consideration paid by Green Network S.p.A. to Aar e Ticino SA di Elettricità, included not only the amount for electricity, but also the amount due for certifications of origin from renewable sources required by the applicable regulations. The certifications obtained were not recognised by the GSE as appropriate to fulfil the obligation of certifying the origin of the electricity from renewable sources indicated therein, for which the AEEG issued a measure against Green Network S.p.A. in which it ordered the company to acquire the missing green certificates

and also handed it a pecuniary sanction. Green Network S.p.A. challenged the aforementioned measure before the administrative judicial authorities and succeeded in obtaining, at second instance proceedings, solely the cancellation of the pecuniary sanction. Pending an administrative judgement, Green Network S.p.A. initiated arbitration proceedings before the International Chamber of Commerce of Paris, aimed at obtaining a ruling against Alpiq S.A., formerly Aar e Ticino SA di Elettricità to repay the amount the former company must pay to the GSE, due to the non-recognition of the certifications of origin of electricity from renewable sources that said entity Aar e Ticino SA di Elettricità had delivered to it together with the energy it had sold to it in 2005. The arbitration proceedings that remained suspended until the settlement of the administrative issue restarted on 7 April 2016 and should be completed in 2018. The Directors, supported by the opinion of authoritative professionals, are confident of a positive outcome and consider the risk of losing to be possible. As such, no allocation was made to the risk provision.

- ◆ The following measures on imbalances are also reported below for the purposes of this Report. As a result of the Lombardy Region TAR's judgment No. 1648/2014 and the Council of State's judgments 1532/2015 and 2457/2016, which seek to restrict improper gains by dispatching users who exploit certain anomalies in the process of calculation of imbalance prices, Resolution 333/2016/R/eel of 24 June 2016 laid down the rules to apply in order to measure effective imbalances during the period from July 2012 to September 2014, setting out mechanisms which re-establish the regulations set aside by the abovementioned judgments of the Lombardy Region TAR and of the Council of State. With resolution 837/2017 of December 2017, an order was published in relation to the completion of audits referred to in Resolution 333/2016 for Green Network. According to ARERA, the Regulatory Authority for Energy, Networks and Environment (*Autorità di Regolazione per Energia Reti e Ambiente*, or ARERA), Green Network S.p.A. did not operate in a diligent manner during the first half of 2013. The parent company filed an appeal against this resolution before the Lombardy Region TAR, which firstly suspended the order and then rejected the Company's petitions by judgment no. 897 of 4 April 2018. Green Network S.p.A. promptly submitted an appeal to the Council of State on 26 April 2018. We are waiting for the hearing to be set, subject to the stay of execution of the Lombardy Region TAR's judgment. The directors, who are supported by the opinion rendered by authoritative professionals, are confident that the dispute will be favourably settled and consider the risk of losing the case as possible. Therefore, no allocation was made to the provision for risks.
- ◆ With Resolution 342/2016 ARERA has also started procedures for the timely adoption of prescriptive measures in relation to any possible advantage obtained by imbalances for the period from January 2015 to July 2016. With resolutions 559/2017 ARERA adopted a prescriptive measure against Green Network S.p.A. for the period from January 2016 to July 2016, as amended by resolution 136/2018. Then Green Network S.p.A. filed an appeal with the Lombardy Region TAR to have the aforesaid measure repealed, while obtaining, pending discussion of the merits, the stay of the ruling of the resolution passed by the Authority. Following the corporate acquisition of Energrid S.p.A, the parent company assumed liability for the same measure issued against the acquired company (resolution 558/2017, as amended by resolution 74/2018), thus obtaining the stay pending discussion of the merits. Green Network S.p.A, did not receive any final measure on the matter in relation to Tradelnv Gas &Energy S.p.A.. The directors, who are supported by the opinion rendered by authoritative professionals, are confident that the dispute will be favourably

settled and consider the risk of losing as remote. Therefore, no allocation was made to the provision for risks.

For the sake of completeness, it should be noted that Green Network S.p.A. has brought, also in relation to the most recent case law and the resolutions passed by ARERA, the related actions to protect its own interests for the return of any sum unduly paid to electricity distributors. In this context, the directors, who are supported by the opinions rendered by authoritative legal counsels, believe that, as things stand, the risk of losing the case is remote.

At the date of this report, there were no additional disputes or pending tax matters for a significant amount that determined contingent liabilities for the Group that are not reflected in this document.

Statement of reconciliation between the financial statements of Green Network S.p.A. and the consolidated financial statements relating to the profit (loss) for the year and shareholders' equity

	Shareholders' equity	of which profit (loss) for the year
Balances as per the financial statements of Green Network S.p.A. as at 31.12.2017	32,118,217	5,899,182
Surplus of shareholders' equity of the financial statements, including the results for the year with respect to the book values of the equity investments in consolidated companies	0	0
Consolidation adjustments made for:		
- Line-by-line consolidation of the equity investments in subsidiaries	(15,787,435)	(3,738,309)
- deferred and prepaid income taxes	0	0
Other changes to the balance sheet	0	0
<i>"Rounding reserve"</i>	0	0
Group shareholders' equity and profit (loss)	16,330,783	2,160,872
Minority interests	550,453	87,128
Consolidated shareholders' equity and profit (loss)	16,881,236	2,248,000

Guarantees, commitments and off-balance sheet agreements

At the date of this report the Group had the following commitments and risks in place, which do not result from the statement of financial position:

- ◆ Surety guarantees of EUR 149,119,659 issued in favour of third parties (of which insurance guarantees of EUR 73,849,002 and financial guarantees of EUR 75,270,658);
- ◆ Guarantees in the form of pledges of EUR 11,342,666.

Furthermore, the Group, as already stated in the note on trade receivables, has received sureties from customers for EUR 5,000,000.

Guarantees issued to third parties are made up of:

- ◆ EUR 94,748,000 in favour of third parties for the purchase and sale of electricity, gas and derivatives, of which EUR 8,200,000 in favour of subsidiary Green Network UK Plc;
- ◆ EUR 9,450,323 in favour of third parties for the transportation of electricity and gas;

- ◆ EUR 18,954,611 in favour of Tax Authorities for group VAT setoff and for excess VAT setoff;
- ◆ EUR 1,000,000 in favour of GME for the performance of operations on electricity markets;
- ◆ EUR 18,379,000 in favour of Terna S.p.A. for dispatching;
- ◆ EUR 908,500 in favour of SNAM for balancing;
- ◆ EUR 3,539,397 in sureties issued in favour of third parties for gas carrier activities and distribution;
- ◆ EUR 750,000 in favour of Idea Fimit S.p.A. for the lease of the new building at which corporate activities are carried out;
- ◆ EUR 450,000 in favour of company Simest S.p.A. for participating in the quota capital of Solcap Green S.r.l.;
- ◆ EUR 157,829 in favour of entities involved in the construction of plants for the production of electricity from renewable sources;
- ◆ EUR 782,000 relating to other guarantees received in favour of third parties.

The amount of EUR 5,000,000 relating to sureties received from customers has been commented on in the note relating to trade receivables, to which reference is made.

The amount of EUR 11,342,666 relating to pledges is made up as follows:

- ◆ EUR 7,419,290 due to banks for cash collateral activities relating to pledges requested by some banks to guarantee credit commitments agreed and/or used;
- ◆ EUR 3,923,376 for pledges on shares and securities.

The Group also has the following corporate guarantees/patronages/co-obligations granted by the consolidating company:

- ◆ EUR 1,115,465 to guarantee the lease agreement held by the subsidiary Green Wind 2 S.r.l. with Alba Leasing S.p.A.;
- ◆ EUR 4,699,059 in guarantee of the outstanding bank loans by Rena Energia S.r.l. and Biogas Energy Società Agricola S.r.l.;
- ◆ EUR 1,372,398 in guarantee of the existing loans of the associated company Sòlerys S.p.A.;
- ◆ EUR 90,000 for a patronage/co-obligation in favour of the subsidiary Biogas Energy Società Agricola S.r.l.;
- ◆ EUR 4,888,063 for a patronage/co-obligation in favour of the holding company SC Holding S.r.l..

Remuneration due to Directors, Statutory Auditors and Independent Auditors

As already indicated in previous notes 4 and 5, the information relating to remuneration due to directors, statutory auditors and the independent auditors for 2017 is provided below.

	Amount
Directors' fees	2,942,000
Statutory Auditors' fees	77,401
Auditors' fees	349,803
Supervisory Body's fees	31,200
Total	3,400,404

Subsequent events

No further significant events occurred after the close of the current financial year, with respect to those already detailed in the relevant section of the Report on Operations.

Rome, 27 April 2018

Chairman of the Board of Directors

Piero Saulli

IV – ANNEXES

Statutory auditors' report on the financial statements of Green Network S.p.A.

GREEN NETWORK S.p.A.

Registered office: Rome, Viale della Civiltà Romana no. 7

Share capital: EUR 15,636,000.00 fully paid-up

Tax Code and Rome Register of Companies No. 07451521004

Rome CCIAA (Chamber of Commerce, Industry, Craft Trade and Agriculture) - R.E.A.
(Economic and Administrative Index) No.1033355

* * * *

**Company subject to management and coordination by SC Holding S.r.l.
with registered office in Rome, at Viale della Civiltà Romana no. 7, tax code
08420631007**

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**Report of the Board of Statutory Auditors on the
separate financial statements
for the year ended 31 December 2017
(pursuant to Articles 2403 and 2429, paragraph 2, of the Italian Civil Code)
to the Shareholders' Meeting of Green Network S.p.A.**

Dear Shareholders,

Preliminarily, we hereby inform you that during the year ended 31 December 2017 the Board of Statutory Auditors carried out the supervisory activities envisaged by Article 2403 of the Italian Civil Code, as specified below.

Based on the type of activity carried out by the company and its organisational and accounting structure, and considering the company's size and business complexity, the Board of Statutory Auditors has planned its supervisory activity taking into consideration the inherent risks and the internal control system in relation to the Company's management activities.

We regularly carried out the supervisory activities, drawing up the related reports in accordance with the Law.

We oversaw the observance of the Law and the Articles of Association and the observance of the standards of correct management making reference, when accomplishing our appointment, to the Standards of Conduct for Boards of Statutory Auditors recommended by the Italian Board of Chartered Accountants and Accounting Experts.

We took part in the meetings of the Board of Directors and the Shareholders' Meetings and we regularly obtained information from the Management Body on the general operating trend and on the outlook for the future as well as on transactions of greatest significance, due to their size or features, carried out by the Company and, on the basis of the available information, we can reasonably state that the action carried out is compliant with the law and the Articles of Association and is not manifestly imprudent, hazardous or such that it compromises the integrity of the company assets.

We acquired awareness of and oversaw the adequacy of the Company's organisational structure; in this connection, we have no particular indications to make.

We assessed and oversaw the adequacy of the administrative and accounting system as well as the reliability of the latter to correctly represent the operating events, and in this connection we have no particular observations to report.

No complaints submitted under Article 2408 of the Italian Civil Code or by shareholders or third parties were received by the Board of Statutory Auditors.

We have examined the annual financial statements as at 31 December 2017, with regard to which we disclose the following.

The Board of Directors made available to us the financial statements for the year ended 31 December 2017, prepared in accordance with international accounting standards (IAS/IFRS) and made up of, as required by IAS 1, the Statement of financial position, the Income statement and Statement of comprehensive income, the Statement of changes in shareholders' equity, the Statement of cash flows and the Explanatory notes containing the list of significant accounting policies and other explanatory notes.

The Board of Directors also made available to us the Report on Operations, which was prepared together with the consolidated financial statements of the Green Network S.p.A. Group for the year ended 31 December 2017.

The Board expressly waives the terms provided for by paragraph 1 of article 2429 of the Italian Civil Code and notes that the shareholders have expressly waived the terms referred to in paragraph 3 of the same article 2429 of the Italian Civil Code.

Since we are not appointed to carry out the analytical audit on the contents of the financial statements, we have overseen the general layout given to the same, and their general compliance with the Law with regard to their form and structure. We have verified the observation of the legal provisions inherent to the preparation of the Report on Operations and, in this connection, we have no particular observations to report.

It should be noted that, during the year, major non-recurring transactions were carried out, which are described in the directors' report, concerning the acquisition of the following main business units, whose operations are synergic and strategic for the company business:

- a business unit controlled by Energrid S.p.A. concerning: i) the wholesale trading of electricity, ii) the retail sale of electricity and natural gas to domestic and non-domestic customers in the free market, iii) energy efficiency consultancy and design services;
- a business unit controlled by Energrid S.p.A. concerning activities carried out with Public Authorities, including: i) the wholesale trading of electricity, ii) the retail sale of electricity and natural gas, iii) energy efficiency consultancy and design services;
- a business unit controlled by Tradeinv Gas & Energy S.p.A. concerning activities including: i) the wholesale trading of electricity, gas and environmental certificates, as well as ii) energy efficiency consultancy and design services.

The Energrid and Tradeinv Business Units were acquired directly by Green Network S.p.A., while the Energrid Business Unit concerning activities with Public Authorities was acquired through Energrid S.r.l., a newly-established company wholly owned by Green Network S.p.A..

These transactions entailed:

- the recognition of goodwill attributable to the units being acquired (Energrid and Tradeinv Business Units), totalling EUR 26,302,025;
as required by IAS 36, the Company conducted the impairment test on the aforesaid goodwill as at the reporting date; pursuant to article 2426 of the Italian Civil Code, we have given our consent to the recognition of this goodwill in the balance sheet assets;

- the recognition of trademarks for EUR 8,374,945 relating to the allocation of the purchase price of the business units that were acquired during the year;
- an increase in other intangible assets, which mainly include the customer relationships relating to “VAT” customers for EUR 6,818,629 and to “domestic” customers for EUR 5,608,209, arising from the allocation of higher values relating to the two business units that were acquired during the year;
- a deterioration, together with the other reasons stated in the notes to the financial statements, in the net financial position, which amounted to EUR 79.3 million at the reporting date against EUR 26.2 million in 2016.

During 2017 the subsidiary Sacri Real Estate S.p.A. was also merged by incorporation into the company, with a view to the reorganisation of the group. The statutory and tax effects of this non-recurring transaction date back to the first day of the financial year, i.e. from 1 January 2017.

Intercompany transactions and those with related parties are included in the respective sections of the Explanatory Notes to the Financial Statements to which this Board refers with regard to the identification of the type of transactions and the related economic, equity and financial effects.

The Board notes that the identification and quantification of the significant transactions with related parties is, amongst other aspects, reserved for the exclusive competence of the Board of Directors.

The guarantees, commitments and off-balance sheet agreements are correctly described in the notes to the financial statements.

The Board of Statutory Auditors points out that the company's development plans, the recent acquisitions, the complexity of the relevant sector, require the company's organisational structure to be strengthened on an ongoing basis and invites the Management Body to continue to pursue its policy.

PricewaterhouseCoopers S.p.A. was appointed by the Shareholders' Meeting of 22 June 2016 to carry out the statutory audit. This firm has not informed us of any significant facts or information which must be highlighted in this report, and set out in their report dated 14 May 2018.

On conclusion of this report, given the results of the checks carried out, the results of the activities performed by the audit body and the criteria followed by the Directors when drawing up the financial

statements, the Board of Statutory Auditors deems, in as far as it is responsible, to express a favourable opinion for the approval of the annual financial statements as at 31 December 2017 and the report on operations. In addition, it has no observations on the Board of Directors' proposal to allocate the result for the year as stated in the explanatory notes.

Brescia, 14 May 2018

The Board of Statutory Auditors

(Fabio Sottini)

(Federico Pecorini)

(Marlon Rizzo)

Statutory auditors' report on the consolidated financial statements of the Green Network S.p.A. Group

GREEN NETWORK S.p.A. GROUP

Registered office: Rome, Viale della Civiltà Romana no. 7

Share capital: EUR 15,636,000.00 fully paid-up

Tax Code and Rome Register of Companies No. 07451521004

Rome CCIAA (Chamber of Commerce, Industry, Craft Trade and Agriculture) - R.E.A.
(Economic and Administrative Index) No.1033355

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Report of the Board of Statutory Auditors on the consolidated financial statements

for the year ended 31 December 2017

(pursuant to Articles 2403 and 2429, paragraph 2, of the Italian Civil Code)

to the Shareholders' Meeting of Green Network S.p.A.

Dear Shareholders,

Within the sphere of our duties, we checked compliance and adequacy of the information provided in the documents relating to the consolidated financial statements and to the Report on Operations of the Green Network Group for the year ended 31 December 2017.

The consolidated financial statements closed with a net profit of EUR 2,248,000 (EUR 2,160,872 of which attributable to the Group and EUR 87,128 to minority interests), total assets of EUR 698,715,554 and total shareholders' equity of EUR 16,881,236 (EUR 550,453 of which attributable to minority interests).

Besides the Parent Company, the following subsidiaries (directly or indirectly controlled) have been consolidated line-by-line:

<u>Name</u>
SOLCAP GREEN S.R.L. Rome, Viale della Civiltà Romana no. 7
GREEN HYDRO 1 S.R.L. Rome, Viale della Civiltà Romana no. 7
ENERGRID S.R.L. Rome, Viale della Civiltà Romana no. 7
GREEN WIND 2 S.R.L. Rome, Viale della Civiltà Romana no. 7
RENA ENERGIA S.R.L. Rome, Viale della Civiltà Romana no. 7
BIOGAS ENERGY SOC. AGRICOLA S.R.L. Rome, Viale della Civiltà Romana no. 7
GREEN NETWORK UK PLC St. Martin's Court, 10 Paternoster Row – London (GB)
GREEN NETWORK ENERGY LTD St. Martin's Court, 10 Paternoster Row – London (GB)
SPECTRUM TECH S.R.L. Bucharest (Romania), Barbu Stefanescu Delavrancea no. 55
GENERA GREEN ENERGY Romania
GREEN NETWORK HOLDING RINNOVABILI S.R.L. Rome, Viale della Civiltà Romana no. 7
LE FATE TURCHINE S.R.L. Rome, Viale della Civiltà Romana no. 7
LE FATE TURCHINE 2 S.R.L. Rome, Viale della Civiltà Romana no. 7

The equity investments in the following associated companies have been carried at equity: Solergys S.p.A., U.S. Boreale S.r.l., Converge S.r.l. and JMS S.r.l. (joint venture).

We have examined the consolidated financial statements as at 31 December 2017, drawn up in accordance with international accounting standards (IAS/IFRS) and made up of the Statement of financial position, the Statement of comprehensive income, the Statement of changes in shareholders' equity, the Statement of Cash Flows and the Explanatory notes, as well as of the Report on Operations, which was prepared together with the separate financial statements of the parent company Green Network S.p.A. for the year ended 31 December 2017, with regard to which we disclose the following.

The consolidated financial statements for financial year 2017 were audited by the independent auditor PricewaterhouseCoopers S.p.A., which was appointed by the Shareholders' Meeting on 22 June 2016 to carry out the statutory audit, and which issued its audit report on 14 May 2018, finding no irregularities as regards the basis of presentation and the true and correct representation of the financial position and result of operations.

Since we are not appointed to carry out the analytical audit on the contents of the consolidated financial statements, we have overseen the general layout given to the same, and their general compliance with the law with regard to their form and structure.

It should be noted that, during the year, major non-recurring transactions were carried out, which are described in the directors' report and in the board of statutory auditors' report on the financial statements of parent company Green Network S.p.A., concerning the latter's acquisition of business units, whose operations are synergic and strategic for the Group's business.

These transactions entailed:

- the recognition of goodwill attributable to the units being acquired (Energrid and Tradeinv Business Units), totalling EUR 26.3 million;
- the recognition of goodwill of EUR 0.2 million, attributable to the business unit concerning activities with Public Authorities, in the financial statements at 31 December 2017 of the wholly-owned subsidiary Energrid S.r.l.;
as required by IAS 36, the Company conducted the impairment test on the aforesaid goodwill as at the reporting date; pursuant to article 2426 of the Italian Civil Code, we have given our consent to the recognition of this goodwill in the balance sheet assets;
- the recognition of trademarks for EUR 8,374,945 relating to the allocation of the purchase price of the business units that were acquired during the year;
- an increase in other intangible assets, which mainly include the customer relationships relating to the customers acquired following the abovementioned acquisitions, relating for EUR 12,426,838 to the parent company and for EUR 418,818 to subsidiary Energrid S.r.l.;
- a deterioration, together with the other reasons stated in the notes to the financial statements, in the net financial position, which amounted to EUR 88.4 million at the reporting date against EUR 45.1 million in 2016.

During 2017 the subsidiary Sacri Real Estate S.p.A. was also merged by incorporation into the parent company, with a view to the reorganisation of the group. The statutory and tax effects of

this non-recurring transaction date back to the first day of the financial year, i.e. from 1 January 2017.

The Board of Statutory Auditors points out that the Group's development plans, the recent acquisitions, the complexity of the relevant sector, require the corporate organisational structure to be strengthened on an ongoing basis; the Board of Statutory Auditors also invites the Management Body to continue its activities, while maintaining the commitment to adopt all the policies necessary to achieve the financial balance and continuing to supervise the protection and adequacy of net worth, increasing them based on invested capital.

In our opinion, the aforementioned consolidated financial statements as a whole correctly present the financial and equity position of the Green Network Group and the results of its operations for the year ended 31 December 2017, in compliance with the provisions governing the consolidated financial statements referred to above.

Brescia, 14 May 2018

The Board of Statutory Auditors

(Fabio Sottini)

(Federico Pecorini)

(Marlon Rizzo)

Independent auditor's report on the financial statements of Green Network S.p.A.



Independent auditor's report

in accordance with article 14 of Legislative Decree No.39 of 27 January 2010

Green Network SpA

Financial statements as of 31 December 2017



Independent auditor's report

in accordance with article 14 of Legislative Decree No.39 of 27 January 2010

To the shareholders of Green Network SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Green Network SpA (the Company), which comprise the statement of financial position as of 31 December 2017, the income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers SpA

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Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No.39/10

Management of Green Network SpA is responsible for preparing a report on operations of Green Network SpA as of 31 December 2017, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No.720B in order to express an opinion on the consistency of the report on operations with the financial statements of Green Network SpA as of 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the financial statements of Green Network SpA as of 31 December 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No.39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Rome, 14 May 2018

PricewaterhouseCoopers SpA

Signed by

Pierpaolo Mosca
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Independent auditor's report on the consolidated financial statements of Green Network S.p.A.



Independent auditor's report

in accordance with article 14 of Legislative Decree No.39 of 27 January 2010

Green Network SpA

***Consolidated financial statements
as of 31 December 2017***



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the shareholders of Green Network SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Green Network (the Group), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Green Network SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial



statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

Management of Green Network SpA is responsible for preparing a report on operations of the Green Network Group as of 31 December 2017, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No.720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the Green Network Group as of 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the consolidated financial statements of the Green Network Group as of 31 December 2017 and is prepared in compliance with the law.



With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Rome, 14 May 2018

PricewaterhouseCoopers SpA

Signed by

Pierpaolo Mosca
(Partner)

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