ALTO GARDA SERVIZI S.p.A

Registered Office: Via Ardaro, 27 38066 Riva del Garda, Province of Trento, Italy Trento Company Register Tax Code and VAT No. 01581060223 Share capital Euro 23,234,016.00, fully paid-up Closing date 31 December 2030 Management and coordination by the Municipality of Riva del Garda

Financial Statements at 31.12.2017

21st FY

Corporate bodies

Board of Directors

Chair Andrea Mora

Director Manuela La Via

Director Lara Marcabruni

Director Marco Merler

Director Fabrizio Veneri

Board of Statutory Auditors / Internal Control Committee

Chair Michela Zambotti

Standing auditor Rodolfo Marcolini

Standing auditor Francesco Dalla Sega

Independent Auditors

BDO Italia S.p.A.

Report on Operations

Economic context	page 4
Regulatory framework of reference	page 7
Operating performance	page 9
Investments	page 11
Human Resources	page 13
Economic and Financial Results	page 13
Other information	page 19
Transactions with related parties	page 20

Financial Statements

Balance Sheet	page 25
Income Statement	page 27
Statement of Cash Flows	page 30
Statement of changes in shareholders' equity	page 31
Notes to the financial statements	page 47

Report on Operations

To the Shareholders,

We hereby submit for your approval the financial statements for the year ended 31 December 2017 and the accompanying reports that the Board of Directors have prepared to illustrate the results achieved. This report has been prepared in accordance with the Italian Civil Code and the accounting standards adopted for the preparation of the financial statements were the International Financial Reporting Standards ("IFRS"). The figures presented in these financial statements are rounded to the nearest Euro.

ECONOMIC CONTEXT

In 2017, the world economy showed signs of strengthening and a general improvement in growth rates in most countries, due in part to the continuation of monetary and fiscal stimulus to support the recovery and in part to the significant growth of international trade flows, where the contribution of China is significant. The world's Gross Domestic Product showed a positive trend, particularly in the final part of the year, despite the presence of some geopolitical risks, and the possible uncertainties on the world's currency and financial markets linked to the tax reform recently approved in the United States.

In Europe, the economy performed well, not only as a result of global growth, but also as a result of strong domestic demand, driven by stable private consumption and a recovery in investment, which in turn benefited from favourable financing conditions and a less uncertain economic climate. European economies are expanding albeit at different speeds, and their labour markets are showing improvements and reductions in unemployment. During the year, a favourable environment for economic growth emerged in the major European countries (Germany, France, Italy and Spain), but also for the Eurozone as a whole. However, European governance shows signs of indecision in continuing reforms and, after the decision of the United Kingdom to leave the European Union, other geopolitical uncertainties have arisen, as in the case of Catalonia. In Italy, growth remains below that of the other major countries and the European Union as a whole, although it was revised upwards during the year. The change in GDP is expected to be around +1.5%, as a result of increased consumption and investment. The recovery of the Italian economy, although limited, took place in the wake of the strengthening of global growth, not only thanks to the remarkable performance of Made in Italy exports (also better than some European competitors), but also for the renewed vigour of domestic demand, within which we distinguish the two items of expenditure on which tax policies have been mainly focused, namely private consumption and investment by companies, with particular reference to investments in machinery, equipment, patents and means of transport that have recorded high values. The recovery has been driven by industry in the strict sense, but progress is also gradually spreading to other service sectors and important signs are coming from the revitalisation of tourism. Improvements in the labour market contribute to this positive picture.

The gross demand for electricity in Italy in 2017 amounted to 320.4 TWh (TWh = billions of kWh), an increase of 2% compared to the previous year. In 2017, net electricity production increased by 5.3 TWh, the production mix compared to the previous year was characterised by a greater contribution from thermoelectric generation of 8.7 TWh (+4.6%), which more than offset the significant decline in hydroelectric production, down by 14.3% (-6.3 Twh). The net import balance was substantially in line with 2016 (+0.7 TWh; +2%), although it remained well below the 2015 figures (-8.6 TWh; -18.5%) due to the lower contribution of flows from Central Europe. With regard to other renewable sources, the positive trend of recent years continued, with growth of 2.9 TWh (+6.5%): in particular, the production of photovoltaic plants increased (+3 TWh; +14.0%), unlike that of wind power, which remained in line with the previous year. Overall, domestic production, net of pumping, covered 89% of demand, substantially in line with the figure of the previous year. With reference to the pricing scenario, at 31 December 2017, the average PUN (Single National Price), stood at 53.9 Euro/MWh, an increase of 26.1% compared to the previous year (42.7 Euro/MWh). This increase is part of a context of increased demand for electricity (+2% on an annual basis), reduced availability of renewable energy, mainly from hydroelectric sources (-14.3%) and increased costs of thermoelectric generation (gas, coal and CO2). By analysing the monthly trend of the PUN during 2017, it can be observed that the level is constantly higher than that of 2016. At the beginning of the year, the reduction in imports from France, along with the cold temperatures and sustained gas prices, supported prices in the day-ahead market (first quarter: +45.1% compared to the same period of the previous year). With the arrival of the summer season, the increasing demand and the low hydraulicity (summer 2017 was in fact the fourth driest of the last two centuries) have implied a greater recourse to thermoelectric production, characterised by higher generation costs. Starting in September, further price support was provided by the sharp rise in gas prices, which coincided with the emergence of new critical issues for the nuclear power plants in France: as a result, the third quarter saw an increase of 26.1% compared to the same period of 2016. The last quarter of the year saw a rise in prices driven by temperatures below seasonal averages and the continued shutdown of some French nuclear power plants. In December, in the second week, tensions on the gas market, in a context of low wind power generation and high demand, caused a strong growth of the PUN, which on December 13 reached its highest value for two years (110.98 euro/MWh). During 2017, the F1, F2 and F3 hour groups, as well as the peak and offpeak bands, recorded almost similar increases, around 26%, compared to the previous year. As far as area prices are concerned, in 2017, there were rather homogeneous increases, with slightly more marked increases in the North, Central North and Sicily (+27.4%, +27.6% and +27.4% respectively) compared to increases of around 25% in other areas.

The demand for natural gas in Italy in 2017 recorded an increase of 6.1% over the previous year, amounting to about 74.7 billion cubic meters, with a total increase of about 4.3 billion cubic meters. As in 2016, this incremental trend in 2017 is mainly attributable to the thermoelectric sector, which benefited from a series of economic effects, such as the stationary condition of electricity imports (which were in any case 18.3%).

lower than in 2015), and a lower contribution from hydroelectric production and coal-fired power plants, thereby increasing the consumption of gas-fired power plants by 2 billion cubic meters compared with 2016 (+8.7%).

The industrial sector also saw an increase in consumption of 6.9% compared to the previous year, with an increase in volumes of approximately 1.2 billion cubic metres concentrated mainly in the summer months. As far as consumption for services and civil uses is concerned, the rather cold climate of the winter months at the beginning and end of the calendar year contributed to an overall increase in consumption of about 1 billion cubic metres, closing with an increase of 3.5%.

In terms of sources of procurement, the year 2017 recorded:

- production was down (-0.3 billion cubic meters; -6.1% compared to the 2016 figure);
- gas imports were up (+4.2 billion cubic meters; +6.4% compared to 2016);
- injection storage balance of about 0.2 billion cubic meters.

In 2017, the prices of indexed gas increased by 17.4% compared to 2016, recording an average value of 24.3 c€/smc.

COMPANY ACTIVITIES

First of all, it should be noted that starting with the 2016 financial statements, the financial statements of Alto Garda Servizi S.p.A. have been prepared in accordance with the EU IFRS accounting standards in force at the date of approval of the financial statements, with a transition date of 1 January 2015.

As far as the Company's results are concerned, we confirm that they are positive and improving compared to the previous year.

Alto Garda Servizi S.p.A. (hereinafter also "AGS" or "AGS S.p.A.") operates in the territory of Alto Garda and performs the following activities:

- electricity and gas distribution;
- sale of heat to customers connected to the district heating network in the Municipality of Riva del Garda;
- electricity production;
- management of the integrated water cycle in the Municipality of Riva del Garda;
- management of public lighting;
- invoicing service of water bills for the Municipality of Arco;
- management of the water cycle in the Municipalities of Arco and Nago Torbole.

It should be noted that the AGS structure was involved throughout the year in the management of the woodchip cogeneration plant of the subsidiary Ledro Energia S.r.l.

REGULATORY FRAMEWORK OF REFERENCE

As already mentioned, AGS operates in the markets of electricity and gas distribution and water cycle management. This part of the report briefly analyses the regulatory interventions introduced in these sectors, so as to provide a more complete overview of events in the year and better understand the context in which the Company operates.

The electricity and gas distribution sectors are, in fact, heavily regulated and interventions (resolutions) of the Regulatory Authority for Energy, Networks and Environment (ARERA) can affect both the revenue and cost structure of the Company, as well as influence the organisational structure, requiring organisational adjustments that involve no explicit costs but still affect profitability.

Water sector

In this sector, the measures taken, both at national level and at the provincial level, have reaffirmed and strengthened the principle of the management of the water service for Optimal Territorial Areas (ATO). In our country, an agreement has not yet been reached between the Autonomous Province of Trento and the Council of Local Autonomies for the definition of the ATO, based on which the Municipalities are required to organise the water cycle.

The two rulings issued by the Constitutional Court on 10 March 2016 and by the Regional Administrative Court of Lombardy on 11 October 2016, which grant the Autonomous Province of Trento primary legislative authority with regard to its own tariff regulation for the integrated water service, should be noted.

It should be noted that with regard to Alto Garda and Ledro, a company has been set up by all the Municipalities, Alto Garda Impianti S.r.l., to which the same Municipalities are considering whether to confer the management service of the water service.

Natural gas sector

During 2017, the application of the distribution and metering tariffs continued in accordance with the principles introduced for the fourth regulatory period (2014- 2019), partly amended by Resolution 583/2015 of 2 December 2016, which modified the rate of return on invested capital from 6.1% to 6.6%. It is recalled that in 2012, with Resolution no. 73, the Provincial Council, in agreement with the Council of the Local Autonomies and after consultation with the companies operating in the gas distribution sector, defined a single Territorial Area for the performance of the natural gas distribution public service, represented by the entire provincial territory with the eventual addition of the Municipality of Bagolino (BS). This area will be the subject of tender.

At the end of 2012, with Provincial Law no. 25 of 27 December 2012 (article 34, paragraph 2), the Province of Trento established that the Provincial Agency for Water Resources and Energy (A.P.R.I.E.) will conduct the function of contracting station responsible for the preparatory phase of the tender while the Provincial

Agency for Procurement and Contract (APAC) will be the entity that will follow the conduct and awarding of the tender and the establishment of contractual deeds.

The Autonomous Province of Trento has taken steps to quantify the amount of the one-time fee to cover the costs deriving from the conduct of the tender for the awarding of the gas distribution service in the single provincial ambit. In 2015, AGS already paid the amount required by the Autonomous Province of Trento as an advance and will be repaid, including interest, by the new concessionaire upon award of the service. With the 2017 budget law, the Autonomous Province of Trento, by virtue of the recognised legislative powers in this sector, extended the date of publication of the call for tenders for the award of the gas distribution service to 31 December 2018.

Electricity sector

In 2017, the regulations governing the electric power distribution sector did not change significantly with respect to the Provincial Plan, the main points of which can be summarized as follows:

- the minimum territorial basin for the electricity distribution service is the single provincial ambit;
- the current managers, including AGS, will continue the distribution in the areas served until 31
 December 2030;
- in order to rationalise the distribution service, it will be possible to transfer portions of SET Distribuzione S.p.A. networks to those who require it. The inverse situation is also possible;
- also with a view to rationalizing the distribution system and with the objective of single provincial ambit, grouping or aggregation of service managers is possible.

The distribution plan also requires electricity distributors operating in the Province as at 25 December 1999 to submit an application to the Province, through the Provincial Agency for Water Resources and Energy (A.P.R.I.E.), for the issue of the concession for electricity distribution activities.

The concession will be issued free of charge until 31 December 2030 after the positive outcome of the technical investigation carried out by APRIE. The issue of the concession is subject to the commitment by the distributor to comply with certain quality standards of service. The Autonomous Province of Trento will have the right to carry out checks on compliance with commitments that the concessionaire undertakes by signing the agreement.

The Company is preparing the documentation required for the concession request. The first analysis of the requirements does not reveal any impeding aspects. AGS is very attentive to this aspect and is committed to continuous improvement with the aim of overcoming the standards necessary for the maintenance of the concession.

It should be noted that Article 1, paragraph 92, of Law no. 124 of 4 August 2017, established the exclusion of electricity distribution companies that serve less than 25,000 withdrawal points from their obligations regarding functional unbundling, effectively excluding our company, which has about 16,000 POD, but

defining that the arrangements for recognising costs for electricity distribution and metering activities should be based on parametric logics, which also take account of the density of users served, in accordance with the general principles of efficiency and cost-effectiveness and with the aim of ensuring simplification and reduction of the related administrative burden. On 1 March 2018, ARERA published a consultation document "Guidelines for the definition of exogenous variables in relation to the parametric recognition of costs for smaller electricity distribution companies" in which it provided for the new regime to apply from 2018 and provided that the phasing-in mechanisms be applied until 2023. Said guidelines will allow the Company to assess the impact of the new tariff in future years and to make the necessary adjustments to maintain a balanced margin in the electricity distribution service.

District heating sector

The distribution of heat through the district heating network is carried out in the Riva del Garda area and concerns 275 customers, mainly apartment buildings or hotels. The heat is supplied by Alto Garda Power S.r.l., a company 20% owned by AGS and 80% by Cartiere del Garda.

At present, there is no specific regulation and it should be noted that since the tariffs are not determined by the public body, business is not considered as a public service activity.

OPERATING PERFORMANCE

The following is an overall analysis of the performance of operating costs and revenues, referring to the explanatory notes for further details.

Revenues

The production value indicated in the financial statements amounted to Euro 11.83 million, in line with the previous year. The following tables show the changes that occurred within the various sectors and will be examined further in the following paragraphs.

values in Euro millions	2017	2016	difference %
electricity	4.1	4.1	0.00%
methane gas	2.1	2.1	0.00%
water/sewage	1.7	1.9	-10.53%
heat	3.1	3.0	4.52%
Other revenues	0.8	0.7	14.29%
Total	11.8	11.8	0.21%

	2017 qty. distributed	2016 qty. distributed	difference %
GWh electricity	83.8	82.3	1.82%

mcm methane gas	42.9	42.8	0.23%
mcm drinking water	1.9	1.8	5.56%
Mwh heat	45,318	44,132	2.69%

Electricity sector

In 2017, the energy that transited in the network increased by 1.82% compared to the previous year. The turnover from distribution did not change significantly compared to the previous year as the restriction to revenues is not based on the quantity of raw material distributed but on the investments made by the Company and on the number of users served.

Gas sector

In 2017, gas demand was substantially in line with the previous year. Similarly to as specified for the electricity sector, the gas sector also has a constraint to revenues based on the number of meters installed and the amount of investments made.

Water sector

In 2017, the quantities of water were in line with the previous year, while revenues benefited from the increase in sewerage tariffs.

District heating sector

In 2017, there was an increase in the quantities distributed (5.48%) compared to 2016, mainly due to the weather trend. At the same time, there was an increase in turnover (+4.5%), offset by the higher purchase cost of raw material and the consequent retention of the margin. It should be noted that district heating tariffs are linked to the trend in the price of methane gas.

Other revenues

Other revenues increased compared to the previous year and mainly refer to public lighting services, both ordinary and extraordinary maintenance activities and services related to optical fibre.

Costs

With regard to production costs, their overall trend marks a decrease compared to 2016 from Euro 11.2 million to Euro 10.7 million.

The trend was conditioned by the reduction in costs for services. In 2016, there were Euro 120 thousand relating to costs incurred for the listing of the Mini Bond while the costs for the purchase of raw materials, the use of third-party assets and operating expenses are in line with the previous year.

Personnel costs were higher than in 2016, while amortisation costs fell as a result of the revision of the rates for the district heating network from 30 to 40 years and the electricity distribution network from 25 to 35 years.

INVESTMENTS

Investments made in 2017 amounted to Euro 0,936 million compared to Euro 1,020 million in the previous year. Investments are detailed in the following table and described by sector.

values in Euro thousands

	2017	2016	delta a.v.	delta %
electricity service	424	639	(215)	156
gas service	146	73	73	83
water service	8	29	(21)	4
district heating	136	105	31	27
fibre optics	222	174	48	28
Total	936	1,020	(84)	298

Electricity sector

Distribution is performed in the Municipalities of Riva del Garda, Nago-Torbole and, partially, in the Municipalities of Tenno and Arco (town of San Giorgio).

Investments made in the electricity sector in 2017 amounted to Euro 424 thousand compared to Euro 639 thousand in 2016.

In 2017, the Company continued activities to improve the electricity infrastructure through a series of work on medium and low voltage networks and stations.

Electricity network		2017	2016
Medium-voltage networks	km	92	96
Low-voltage networks	km	98	97
Total meters	no.	15,845	15,623

Methane gas sector

Distribution is performed in the Municipalities of Riva del Garda, Arco, Dro and Tenno. Investments in the natural gas sector totalled Euro 146 thousand.

Gas network		2017	2016
Medium-pressure networks	Km	33	33

Low-pressure networks	km	129	129
Total meters	no.	16,458	16,312

Aqueduct cycle sector

The service is carried out in the Municipalities of Riva del Garda, Arco and Nago-Torbole and also includes the management of the consortium aqueduct, which starts from the water intake plant Sass del Diaol in the Municipality of Dro and reaches the Cretaccio reservoir in the Municipality of Arco. In Riva del Garda, it concerns both the aqueduct and the management of the sewage system.

Water network		2017	2016
Network extension	km	103	103
Total meters	no.	10,548	10,458

District heating sector

In 2017, resources were invested for Euro 136 thousand mainly regarding new connections and arrangement of road sections.

District heating network		2017	2016
Network extension	km	26	25.5
Total customers	no.	276	270

Joint investments

Joint investments, amounting to Euro 222 thousand, mainly include investments in fibre optics for the extension to the Municipality of Nago Torbole where 65 new users were connected.

HUMAN RESOURCES

At 31 December 2017, AGS S.p.A. had 48 employees.

The breakdown of personnel by category is as follows:

	C.C.N.L.	AGS			AGS
	applied	31.12.2016	incoming 2017	outgoing 2017	31.12.2017
Managers	Managers	2	-	1	1
White collars	C.C.N.L.E.	29	=	1	28
Blue collars	C.C.N.L.E.	19	-	-	19
Totals		50	-	2	48
of which: - part-time		5	-	-	5

Labour costs in 2017 amounted to Euro 3.162 million, an increase compared to Euro 3.094 million in 2016. As in previous years, regulatory obligations and the Company's constant commitment to ensuring high standards in the performance of its work activities have led to safety training and continuous/recurrent training representing the most significant initiatives in terms of hours provided. Specifically, 18 courses for a total of 655 hours have been provided for workers.

In 2017, there was a minor accident at work.

ECONOMIC AND FINANCIAL RESULTS

Alto Garda Servizi S.p.A. closed the year 2017 with a net profit of Euro 3,176,388 compared to Euro 2,903,090 in the previous year.

The 2016 Income Statement was positively affected by the gain/surplus from the disposal of the improvements to the water service for Euro 285 thousand.

Net operating margin increased from Euro 646 thousand in 2016 to Euro 1,104 thousand in 2017, mainly due to the revision of the amortisation rates of district heating networks, which, according to a specific technical report, went from 30 to 40 years, and of the electricity network, which went from 25 to 35 years, in line with the provisions of the Regulatory Authority for Energy, Networks and the Environment.

Net financial income amounted to Euro 2,500 thousand, up Euro 144 thousand compared to 2016, despite the write-down of the subsidiary Ledro Energia S.r.l. for Euro 745 thousand in 2017.

The pre-tax result thus amounted to Euro 3,604,715, with an increase of about Euro 603,449 thousand compared to the previous year.

To better understand the results achieved by the Company, it may be useful to analyse the Income Statement through some indexes and margins. It is believed that the most significant are:

Index	Formula	2017	2016
ROE	Net Result / Equity	7.07%	6.84%
ROI	Operating Result / Total Assets	1.69%	1.03%
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation	2,636,920	2,573,774

ROE (Return On Equity) allows measuring the return for shareholders of the investment made in the Company. In 2017, the index recorded a value of 7.07%, an increase compared to 2016 (6.84%). The change is attributable to the 2017 result, which includes, in addition to improvements in operating margin, the higher gains of the associate Alto Garda Power S.r.l.

ROI (Return On Investment) allows measuring the return of investments made in the company's core business. In 2017, the index was 1.69%, an increase compared to 1.03% of the 2016 result.

EBITDA (Earnings Before Interest, Taxes, Depreciation and amortisation) corresponds to the operating result before depreciation, amortisation and write-downs and highlights the amount generated from operations, net of notional cost items. EBITDA in 2017, by virtue of the considerations mentioned in the first part of this paragraph, is up Euro 63,146 thousand with respect to as obtained in the previous year.

Income Statement

(values in Euro thousands)

	2017	%	2016	%
production value	11,852	100.00	11,830	100.00
production cost	(6,053)	(51.07)	(6,162)	(52.09)
added value	5,799	48.93	5,668	47.91
personnel cost	(3,162)	(26.68)	(3,095)	(26.16)
gross operating margin	2,637	22.25	2,573	21.75
amortization, depreciation,	(1,532)	(12.93)	(1,928)	(16.30)
write-downs and allocations				
net operating margin	1,105	9.33	645	5.45
financial operations	2,501	21.10	2,356	19.92
pre-tax result	3,606	30.42	3,001	25.37
taxes	(429)	(3.62)	(98)	(0.83)
net result	3,177	26.81	2,903	24.54

Balance Sheet

(values in Euro thousands)

	2017	%	2016	%
Fixed assets	57,571	88	55,634	89
Current assets	7,876	12	6,935	11
Invested Capital	65,447	100	62,569	100
	2017	%	2016	%
Shareholders' Equity	44,929	69	42,424	68
Minorities' Capital	20,518	31	20,145	32
Financing Capital	65,447	100	62,569	100

AGS S.p.A. has a solid and balanced financial situation.

Fixed assets account for 88% of Total Assets and are covered by shareholders' equity for 69%.

To better understand the capital structure of the Company, it may be useful to analyse the figures through some indexes and margins:

Index	Formula	2017	2016
Debt and equity to asset	(Shareholders' Equity + Consolidated Liabilities) / Long-term Capital	119.40%	109.83%
Financial autonomy	(Current Financial Liabilities + Consolidated Financial Liabilities) / Shareholders' Equity	30.06%	30.46%
Loan rigidity	Fixed Capital / Total Assets	74.74%	76.44%

AGS operates principally in distribution services (electricity and gas), in the management of the integrated water cycle and in the sale of heat and is characterised by a significant amount of assets and equity. Therefore, to understand whether the Company's structure is balanced, it may be useful to analyse the consistency between the duration of assets and liabilities.

The debt and equity to asset ratio relates the sum of shareholders' equity and consolidated debt capital at year-end with the value of fixed assets at year-end. A value greater than 100% indicates that the Company has covered the fixed asset items with resources that have the same time horizon. AGS has an index of 119.40%.

The financial autonomy ratio relates the financial resources of third parties, both short and long-term (defined as exposure to banks and other financial institutions at year-end), with the shareholders' equity of the Company at year-end. The ratio should not be too high and in any case consistent with the cash flows, so as to avoid a situation of excessive exposure that would put the Company in difficulty to repay the debt capital. The index has a value of 30.06%, in line compared to 30.46% of the previous year.

The loan rigidity ratio relates long-term capital and total assets at year-end. The index allows understanding whether the structure of the Company is consistent with the type of business in which it operates, or whether it has anomalies. AGS S.p.A. line with the previous year, from 76.76% in 2016 to 74.74% in 2017.

INFORMATION BY BUSINESS SEGMENT

In accordance with IFRS 8, the table below provides information by business segment, based on the analytical accounting structure used in the SAP management system and the cost drivers used to compile the unbundling financial statements.

Alto Garda Servizi operates in the following business segments:

- Energy (hydroelectric generation, energy distribution)
- Gas (gas distribution)
- Water/Sewerage (distribution and sale of water/sewerage)
- District heating (distribution and sale of heat)

- Other services (fibre optics, public lighting, services to subsidiaries, and other minor services)

These operating segments are presented in accordance with IFRS 8, which requires segment reporting to be based on the elements that management uses to make its strategic operating decisions. For the purposes of a correct reading of the economic results relating to the individual activities, it should be noted that the revenues and costs relating to common activities are entirely allocated to the businesses, on the basis of the actual use of the services provided or on the basis of technical-economic drivers.

The following segment reporting does not contain secondary segment reporting by geographical area given the geographical uniqueness in which the company operates.

The following tables show net invested capital by business segment compared to the values at 31 December 2017 and the income statement (up to operating income) by business segment compared to the figures for 2016.

Income Statement by business segment Year 2016

	Energy	Gas	Water/Sewerage	District heating	Other Services	Total
Total revenues and income	3,979,852	2,389,250	1,906,422	2,966,506	586,061	11,828,091
Total operating costs	3,426,351	1,499,942	1,869,288	2,104,571	354,164	9,254,316
Gross Operating Margin (EBITDA)	553,501	889,308	37,134	861,935	231,897	2,573,775
Net amortization, depreciation, allocations and write-downs	792,601	22,644	46,657	849,367	216,863	1,928,132
Gross operating profit/(loss) (EBIT)	-239,100	866,664	-9,523	12,568	15,034	645,643
Income Statement by business segmen	nt Year 2017					
	Energy	Gas	Water/Sewerage	District heating	Other Services	Total
Total revenues and income	3,951,722	2,403,602	1,674,593	3,096,050	725,219	11,851,186
Total operating costs	3,274,746	1,536,897	1,650,711	2,302,436	449,476	9,214,267
Gross Operating Margin (EBITDA)	676,976	866,705	23,882	793,614	275,743	2,636,919
Amortization, depreciation, allocations Net and write-downs	647,836	21,843	27,129	614,813	220,867	1,532,488
Gross operating profit/(loss)						
Gross operating pronty (1955)						

	Energy	Gas	Water/Sewerage	District heating	Other Services	Not allocable	Total
Long-term capital	11,056,856	3,661,364	122,136	13,278,138	102,394	19,608,856	47,829,74
Net working capital	-218,971	-109,144	-227,421	-65,043	-124,316		-744,89
Other assets and liabilities Non- current						7,804,275	7,804,27
Net invested capital (NIC)	10,837,885	3,552,220	-105,285	13,213,095	-21,922	27,413,131	54,889,12
Shareholders' equity							42,424,36
Net Financial Position							12,464,762
Equity and net financial debt (EBIT)						54,889,123
Equity and net financial debt (EBIT Reclassified balance sheet by busine		ecember 2017 Gas	7 Water/Sewerage	District heating	Other Services	Not allocable	54,889,12 : Total
	ss segment at 31 D			District heating 12,799,629	Other Services	Not allocable 21,054,493	Total
Reclassified balance sheet by busine	ess segment at 31 De	Gas	Water/Sewerage				54,889,123 Total 48,943,505 330,044
Reclassified balance sheet by busine	Energy 10,973,909	Gas 3,762,245	Water/Sewerage	12,799,629	233,439		Total 48,943,509 330,044
Reclassified balance sheet by busine Long-term capital Net working capital Other assets and liabilities Non-	Energy 10,973,909	Gas 3,762,245	Water/Sewerage	12,799,629	233,439	21,054,493	Total 48,943,509 330,044 8,627,049
Reclassified balance sheet by busine Long-term capital Net working capital Other assets and liabilities Non- current Net invested capital	Energy 10,973,909 114,463	Gas 3,762,245 44,380	Water/Sewerage 119,790 102,500	12,799,629 28,999	233,439 39,703	21,054,493 8,627,049	Total 48,943,505

Equity and net financial debt (EBIT)

57,900,598

OTHER INFORMATION

Research and development activities

The company does not carry out research and development activities.

Branch offices

The company does not have any branch offices.

Dividends

The positive results achieved in 2017, combined with a solid financial structure, make it possible to propose the distribution of a dividend of Euro 1.70 per share for this year as well.

Audit of the financial statements

The financial statements of AGS S.p.A. are audited by BDO Italia S.p.A., a company appointed by the Shareholders' Meeting in March 2017 to audit the accounts pursuant to Articles 13/16, par. 1, Legislative Decree No. 39, of 27 January 2010 for the period 2016-2024.

Publication of the Financial Statements

These financial statements will be published by the Directors in accordance with the law. The company is not required to prepare the Consolidated Financial Statements, as it has not exceeded the parameters set out in Article 27, Legislative Decree 127/91 as amended by Legislative Decree 139/15.

Treasury shares

As provided for in Article as provided for in Article 2428 of the Italian Civil Code, it is specified that at 31 December 2017, the company directly owns 27,058 treasury shares. At 31 December 2017, subsidiaries and associated companies did not hold shares of AGS S.p.A. and did not purchase or sell such shares in 2017. In 2017, there were no issuances of dividend-bearing shares, bonds convertible into shares and other securities or similar instruments.

Outlook

The economic and financial forecasts for the year 2018, approved by the Board of Directors last December, are confirmed and forecast a positive result that is substantially in line with 2017.

Management and coordination activities

The Company is subject to management and coordination by the Municipality of Riva del Garda.

As required by Article 2497-bis of the Italian Civil Code, the table below shows the key figures of the last approved financial statements.

MUNICIPALITY OF RIVA DEL GARDA - BALANCE SHEET -

SUMMARY						
ASSETS			LIABILITIES			
ITEMS	31.12.2016		ITEMS	31.12.2016		
A - RECEIVABLES FROM SHAREHOLDERS			A - SHAREHOLDERS' EQUITY	155,022,535		
B - FIXED ASSETS			B - TRANSFERS	42,714,784		
I - Intangible assets II - Tangible assets III - Financial assets	2,385,891 131,276,005 40,173,505					
C - CURRENT ASSETS			C - PAYABLES	8,873,809		
I - Inventories II - Receivables III - Financial assets IV - Cash and cash equivalents	29,912,930 - 2,862,034		D - ACCRUALS AND DEFERRALS	828		
D - ACCRUALS AND DEFERRALS	1,591					
TOTAL ASSETS	206,611,956		TOTAL LIABILITIES	206,611,956		

- RECLASSIFIED INCOME STATEMENT -

SUMMARY	
DESCRIPTION	31.12.2016
A - OPERATING INCOME	25,694,285
B - OPERATING COSTS	(25,362,385)
DIFFERENCE	331,900
C - INCOME AND EXPENSES FROM SPECIAL AND INVESTEE COMPANIES	477,710
D - FINANCIAL INCOME AND EXPENSES	1,005
E - EXTRAORDINARY INCOME AND EXPENSES	2,196,353
ECONOMIC RESULT FOR THE YEAR	3,006,968

TRANSACTIONS WITH RELATED PARTIES

Relations with parent companies

The Municipality of Riva del Garda holds the majority shareholding of the Company. Service contracts are in place with the Municipality which provide for the entrustment to Alto Garda Servizi S.p.A. of the exclusive management of electricity and gas distribution services, of the water cycle and public lighting.

There is also a lease contract for the property where the Company has its registered office. All relations with the parent body have been stipulated at current market values.

The company is committed to compliance with the containment measures established by the Memorandum of Understanding signed on 20 September 2012 by the President of the Autonomous

Province of Trento, the Councillor for Local Entities and the President of Autonomies and circulated and provided similar measures to its subsidiaries. In order to fulfil the Memorandum of Understanding of 20 September 2012, the company drafted the budget and the half-year report on operations as provided by Article 2, paragraph 1 of the document annexed to the letter of the Municipality of Riva del Garda on 12 December 2012.

Relations with subsidiaries and associated companies

AGS S.p.A. exercises management and coordination activities over the subsidiary Ledro Energia S.r.l., with which it has a service contract in place for technical and administrative services, as well as an interest-bearing loan. These relations are settled at arm's length.

The Company opted for the consolidated tax return for direct taxes.

The associated company Alto Garda Power S.r.l., with registered and operational office in Riva del Garda, supplies to AGS S.p.A. the heat necessary for the supply of district heating to customers connected to the Riva del Garda network. AGS S.p.A. has recognised an interest-bearing loan towards Alto Garda Power S.r.l. under receivables from associated companies. All contracts are stipulated at market conditions.

AGS S.p.A. has a take-or-pay contract with Alto Garda Power S.r.l. concerning the purchase of electricity and heat that sets minimum quantities and price calculation mechanisms for future periods.

The following table shows the key figures for the associated company Alto Garda Power S.r.l.

	At 31 De	cember
(Euro thousands)	2017	2016
Fixed assets	28,169	32,530
Receivables	32,830	24,128
Payables	28,802	31,232
Equity	32,198	25,426

RISK MANAGEMENT

Risk Management: credit management objectives and policies

The Company is subject to risks and uncertainties related to the external environment, i.e. the context in which it operates. It is not subject to exchange rate risks as it does not operate in foreign currency.

The main risks identified are:

Liquidity risk

Liquidity risk is defined as the possibility that available financial resources may be insufficient to meet commitments. The Company has adequate credit lines to meet liquidity needs and has structured medium/long-term credit lines, both in the form of loans and bonds, unsecured and appropriate to the investments made.

The following table analyses financial liabilities (including trade and other payables), which are expected to be repaid within one year, in the period between one and five years and more than five years.

		At 31 December 2017		
	Maturity			
	Within 1 year	Between 1 and 5 years	Over 5 years	
Trade payables	997,425	0	0	
Payables to banks and other lenders	1,548,235	5,897,753	6,068,382	
Other payables	2,999,020	0	0	
TOTAL	5,544,680	5,897,753	6,068,382	

Interest rate risk

Interest rate risk is closely monitored by the company, which has structured the debt with a time horizon in keeping with its own cash flows. The company is subject to the risk of fluctuations that may occur in the evolution of interest rates. Interest rates, income and expense, including those on intercompany loans, are variable and therefore tied to market performance.

Credit risk

The company's customers are mainly wholesalers of electricity and methane gas and, for the part related to district heating/water, retail customers. The long-lasting relationships and the solidity of the major customers induce the Directors to consider remote the credit risk if not in its physiological form.

Regulatory risk

A source of risk is the ongoing change in the legislative and regulatory context of reference that has an impact on the functioning of the market, tariff plans, levels of service quality required and the technical and operational requirements. In this regard, the Company makes use of its structure for the analysis of regulations and relations with the ARERA.

Concession tender risk

The Company cannot avoid taking this risk as it is intrinsic to its activity. With regard to the tender for management of the gas distribution service, reference is made to as indicated in the report for a description of the company's activities.

Occupational health and safety

The Company, which has always been attentive to the protection of the safety and health of its employees (and in general of all those involved in the activities of the company) has as its objective not only the respect of the regulations in force on the subject, but a set of actions aimed at improving working conditions. For this reason, it is constantly committed to spreading a culture of safety based on the development of risk perception, the promotion of responsible behaviour by all employees and the sharing of responsibilities among all those involved in the Company's activities. Risk assessment documents are updated to reflect the development of the operating structures and conditions and changes in regulations.

Internal risk management tools

With a view to monitoring and managing risk, the company has also independently adopted a number of instruments, listed below:

- Transparency Manager (RPT): The Company has appointed the Transparency Manager as the party
 that elaborates the three-year Transparency Program and keeps it updated along with the
 adaptation of the website, reporting regularly to the Board of Directors.
- It is noted that pursuant to Article 20, Legislative Decree 8 April 2013, no. 39, concerning provisions on the non-conferability and incompatibility of offices, the Company undertook the statements of non-existence of the causes of non-conferability by the Directors in office appointed by the Municipality of Riva del Garda.
- In compliance with the applicable provisions in force on advertising, transparency and dissemination of information by companies controlled by public authorities, the specific section "Transparent Company" of the corporate website contains the statements made pursuant to Legislative Decree no. 39/2013 together with other data provided by Legislative Decree no. 33/2013.
- Corruption Prevention: the Corruption Prevention Manager drafts the three-year Corruption
 Prevention Plan, to be updated annually, containing the mapping of risk areas and the elaboration
 of corruption prevention measures. The RPC also ensures the conduct of the related training
 activities and reports regularly to the Board of Directors.
- Model 231: the Company adopted the organisation, management and control model in compliance
 with the requirements of Legislative Decree 231/2001 and during the year, set the activities
 necessary for the updating thereof.
- Code of Ethics: TAGS adopted a Code of Ethics that defines and contains the set of rules of conduct in relations with external interlocutors and collaborators. The rules contained therein are aimed at creating an efficient and effective system for the programming, execution and control of activities.

- Certification UNI ISO 9001: in all sectors of activities, the Company is certified ISO 9001. The 2017 annual audit ended with the renewal of the certification.
- Management Control: the company has implemented and adopted adequate reporting for the planning, control and measurement of performance.

BALANCE SHEET

Assets	Notes	31.12.2017	31.12.2016
Non-current assets			
Property, plant and equipment	7.1	31,438,054	32,017,423
Intangible assets	7.2	183,834	201,084
Equity investments	7.3	17,321,617	15,611,237
Non-current financial receivables	7.4	7,077,653	6,139,496
Deferred tax assets	7.5	1,549,396	1,664,779
Total non-current assets		57,570,554	55,634,019
Current assets			
Inventories	7.6	446,856	549,954
inventories	7.0	110,030	3 13,33 1
Trade receivables	7.7	5,253,369	4,669,796
Receivables from parent company,			
associated companies, subsidiaries	7.8	429,833	249,873
Current tay racaiyahlas	7.9	127.065	200 122
Current tax receivables	7.9	127,065	280,122
Other current assets	7.10	1,076,719	728,388
Cash and cash equivalents	7.11	542,173	457,310
			,
Total current assets		7,876,015	6,935,443
Total Assets		65,446,569	62 560 462
TOTAL ASSETS		05,440,509	62,569,462

Liabilities and Shareholders' Equity	Notes	31.12.2017	31.12.2016
Shareholders' Equity			
Share Capital	7.12	23,234,016	23,234,016
Reserves	7.12	18,517,997	16,316,455
Net result of the year	7.12	3,176,388	2,903,090
Total Shareholders' Equity		44,928,401	42,424,361
Non-current liabilities			
	7.40	14.055.425	40 407 000
Non-current financial payables	7.13	11,966,135	10,107,982
Employee benefits	7.14	1,510,856	1,410,267
Provisions for risks and charges	7.15	0	46,417
Total non-current liabilities		13,476,991	11,564,666
Current liabilities			
Current nubinties			
Current financial payables	7.13	1,548,235	2,814,090
Trade payables	7.16	997,425	1,419,557
Payables to parent company, associated	7.17	1,239,156	1,461,920
companies, subsidiaries	7.17	1,233,130	1,401,520
Tax payables	7.18	257,341	98,087
Other current payables	7.19	2,999,020	2,786,781
Total current liabilities		7,041,177	8,580,435
Total Liabilities		20,518,168	20,145,101
Total Liabilities and Shareholders' Equity		65,446,569	62,569,462

INCOME STATEMENT

Figures in Euro	Notes	31.12.2017	31.12.2016
Revenues from sales and services	8.1	10,155,403	9,801,679
Other revenues and income	8.2	1,193,551	1,551,832
Increases in fixed assets for internal work	8.3	502,232	474,579
Change in inventories	8.4	0	2,254
Total operating revenues and income		11,851,187	11,830,344
Cost of raw materials, consumables and goods	8.5	(2,109,839)	(1,968,963)
Costs for services	8.6	(2,558,932)	(2,757,934)
Leasehold improvements	8.7	(552,382)	(551,251)
Personnel costs	8.8	(3,161,713)	(3,094,610)
Amortisation/Depreciation of fixed assets	8.9	(1,521,988)	(1,775,418)
Provisions and write-downs	8.10	(10,500)	(152,714)
Other operating expenses	8.11	(831,401)	(883,811)
Total operating costs		(10,746,755)	(11,184,701)
GROSS OPERATING PROFIT (LOSS)		1,104,432	645,643
Income from equity investments	8.12	1,218,747	1,460,868
Write-down of investments	8.13	(744,505)	0
Financial expenses	8.14	(258,394)	(299,113)
Financial income	8.15	129,550	81,996
Revaluations	8.16	0	53,672

			Alto Garda Servizi 3.
Income and expenses from investments - Equity method	8.17	2,154,885	1,058,200
RESULT BEFORE TAXES		3,604,715	3,001,266
Current and Deferred Tax	8.18	(428,327)	(98,176)
NET RESULT OF THE YEAR		3,176,388	2,903,090
Comprehensive Income Statement		31.12.2017	31.12.2016
Result of the Income Statement		3,176,338	2,903,090
result of the meome statement		3,170,330	2,303,030
Amounts that will not be subsequently reclassified to profit/(loss) of the year		-42,722	-25,830
Amounts that will be subsequently reclassified to profit/(loss) for the year		0	0
RESULT FOR THE PERIOD		3,133,666	2,877,260

Net financial debt

Net financial debt (pursuant to CONSOB Communication no. DEM/6064293 of 28 July 2006 and ESMA/2013/319)

The following table provides details of net debt:

Figures in Euro	31.12.2017	31.12.2016
Bonds - non-current portion	5,000,000	5,000,000
Bank loans - non-current portion	6,966,135	5,107,982
Other non-current liabilities	0	0
Total medium/long-term debt	11,966,135	10,107,982
Financial assets with related parties - non-current portion	0	0
Other non-current financial assets and other non-current assets	0	0
Total medium/long-term financial receivables	0	0
Total non-current net financial debt	11,966,135	10,107,982
Bonds - current portion	0	0
Bank loans - current portion	1,548,235	2,814,090
Financial liabilities with third parties - current portion	0	0
Other current liabilities	0	0
Financial liabilities with related parties - current portion	0	0
Total short-term debt	1,548,235	2,814,090
Other current assets	0	0
Financial assets with third parties - current portion	0	0
Financial assets with related parties - current portion	0	0
Total short-term financial receivables	0	0
Cash and cash equivalents	-542,173	-457,310
Total current net financial debt	1,006,062	2,356,780
Net financial debt	12,972,197	12,464,762

Pursuant to IAS 7 "Cash Flow Statement", the following are the changes in financial assets and liabilities:

Figures in Euro	31.12.2016	Cash flow	Non-cash flow	31.12.2017
Bonds	5,000,000	0	0	5,000,000
Financial payables	7,922,072	592,298	0	8,514,370
Other liabilities	0	0	0	0
Financial assets	0	0	0	0
Other assets	0	0	0	0
Net liabilities deriving from financing activities	12,922,072	592,298	0	13,514,370
Cash and cash equivalents	-457,310	-84,863	0	-542,173
Net financial debt	12,464,762	507,435	0	12,972,197

STATEMENT OF CASH FLOWS

Figures in Euro	FOR THE YEAR ENDED 31 DECEMBER		
	2017	2016	
Pre-tax result	3,604,715	3,001,266	
Adjustments for:			
Amortization, depreciation, write-downs and provisions	2,276,993	1,928,132	
Result of investments valued with the equity method and other	-2,154,885	-1,058,200	
Financial (Income)/Expenses	128,844	217,117	
Employee benefits	-17,257	-44,464	
(Gains)/Losses from disposal of assets	0	-89,000	
Fair value valuations	0	-65,044	
Dividends collected	-1,218,747	-1,460,868	
Cash flow from operating activities before changes in working capital	2,619,663	2,428,939	
Increase/(Decrease) in employee benefits	-100,589	-95,232	
(Increase)/Decrease in inventories	103,098	-2,254	
(Increase)/Decrease in trade receivables	-763,533	-80,643	
(Increase)/Decrease in other assets/liabilities and assets/liabilities for	-717,445	937,810	
Increase/(Decrease) in trade payables	-644,896	11,478	
Dividends received from other companies	1,218,747	1,460,868	
Dividends received from associated companies	800,000	0	
Interest income and other financial income received	129,550	81,996	
Interest expense and other financial expenses paid	-258,394	-299,113	
Use of provisions for risks and charges	-46,417	0	
Taxes paid	-145,652	-121,289	
Cash flows from operating activities (a)	-425,531	1,893,621	
Investments in intangible assets	-28,560	-137,883	
Investments in tangible assets	-907,440	-882,074	
Divestments of tangible assets	0	3,369,452	
Net investments in equity investments	-1,100,000	0	
(Increase)/Decrease in other investment activities	-900,000	-4,224,544	
Cash flow from investment/divestment activities (b)	-2,936,000	-1,875,049	
Financial payables (new issues of long-term loans)	2,000,000	1,905,462	
Financial payables (repayments and other net changes)	-543,770	0	
Purchase of treasury shares	0	-3,150,000	
Dividends paid	-629,500	-1,213,153	
Cash flow from financing activities (c)	826,730	-2,457,691	
Increase/(Decrease) in cash and cash equivalents (a+b+c)			
Cash and cash equivalents at the beginning of the year	457,310	467,490	
Cash and cash equivalents at the end of the year	542,172	457,310	

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Legal reserve	Share premium reserve	Treasury shares reserve	Other reserves and retained earnings	Net result of the year	Total shareholders' equity
BALANCE AT 1 January 2016	23,234,016	926,767	2,937,747	-1,300	12,948,329	3,864,695	43,910,254
Transactions with shareholders:	_				-	-	
Dividend distribution					0	-1,213,153	-1,213,153
Total transactions with shareholders	0	0	0	0	0	-1,213,153	-1,213,153
Allocation of the result for the year to the reserve	0	152,339	0	0	2,499,203	-2,651,542	0
Comprehensive result of the year:							
Net result	0	0	0	-3,150,000	0	2,903,090	-246,910
Actuarial gains/(losses) for employee benefits, net of tax effect	0	0	0	0	-25,830	0	-25,830
Total comprehensive result of the year	0	0	0	-3,150,000	-25,830	2,903,090	-272,740
BALANCE AT 31 December 2016	23,234,016	1,079,106	2,937,747	-3,151,300	15,421,702	2,903,090	42,424,361
Transactions with shareholders:							
Dividend distribution					0	-629,625	-629,625
Total transactions with shareholders	0	0	0	0	0	-629,625	-629,625
Allocation of the result for the year to the reserve	0	145,155	0	0	2,128,310	-2,273,465	0
Comprehensive result of the year:							
Net result	0	0	0	0	0	3,176,388	3,176,388
Actuarial gains/(losses) for employee benefits, net of tax effect	0	0	0	0	-42,723	0	-42,723
Total comprehensive result of the year	0	0	0	0	-42,723	3,176,388	3,133,665
BALANCE AT 31 December 2017	23,234,016	1,224,261	2,937,747	-3,151,300	17,507,289	3,176,388	44,928,401

1. **GENERAL INFORMATION**

Alto Garda Servizi S.p.A. is a company incorporated and domiciled in Italy and organised according to the legal system of the Italian Republic, with registered office in Riva del Garda, Via Ardaro 27.

At 31 December 2017, the share capital of the company was held by:

SHAREHOLDER	NO. OF SHARES DUE	%
PUBLIC AUTHORITIES		
MUNICIPALITY OF RIVA DEL GARDA	253,017	56.628%
MUNICIPALITY OF NAGO-TORBOLE	6,806	1.523%
MUNICIPALITY OF ARCO	200	0.045%
MUNICIPALITY OF DRO	120	0.027%
MUNICIPALITY OF LEDRO	120	0.027%
MUNICIPALITY OF TENNO	100	0.022%
MUNICIPALITY OF DRENA	20	0.004%
PRIVATE ENTITIES		
DOLOMITI ENERGIA HOLDING S.P.A.	89,362	20.000%
ISTITUTO ATESINO DI SVILUPPO S.P.A.	53,508	11.976%
F.LLI BONORA S.N.C.	6,683	1.496%
CASSA RURALE ALTO GARDA	4,616	1.033%
CASSA CENTRALE CASSE RURALI	3,616	0.809%
EL.MA S.R.L.	1,582	0.354%
TREASURY SHARES	27,058	6.056%
TOTAL	446,808	100.00%

2. SUMMARY OF THE ACCOUNTING STANDARDS ADOPTED

The main accounting criteria and standards applied in the preparation of the Company's financial statements are shown below. These accounting standards have been applied on a consistent basis for all the years presented in this document.

2.1 Basis of preparation

European Regulation no. 1606/2002 of 19 July 2002 introduced the obligation, with effect from 2005, to apply the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and adopted by the European Union for the preparation of financial statements of companies with equity and/or debt securities listed on one of the regulated markets of the European

Community. As a result of the listing on the Vienna Stock Exchange on 12 December 2016 of a Euro 5 million mini-bond, the Company was required to prepare its financial statements in accordance with IFRS.

The financial statements have been prepared in accordance with the EU IFRS in force at the date of application without reservations on compliance.

The financial statements have been prepared on a going concern basis and on the basis of the conventional historical cost method, with the exception of a number of accounting items that are recognised at fair value at the date of the financial statements in accordance with the provisions of international accounting standards.

These financial statements have been drawn up on the basis of the best knowledge of the IFRS and taking into account the best theory on the subject; any future orientations and interpretative updates will be reflected in subsequent years, in accordance with the procedures established from time to time by the reference accounting standards.

These draft financial statements were approved by the company's Board of Directors on 27 March 2018.

2.2 Form and content of the financial statements

The Company has made the following choices with regard to the form and content of the financial statements:

- The statement of financial position presents current and non-current assets separately and similarly represents current and non-current liabilities;
- The statement of comprehensive income for the year includes not only the result for the year, but
 also the changes in shareholders' equity relating to items of an economic nature which, in
 accordance with international accounting standards, are recorded among the components of
 shareholders' equity;
- The cash flow statement for the year is presented using the indirect method.

the formats used are those that best represent the economic, equity and financial situation of the Company.

These financial statements have been prepared in Euro, the company's functional currency.

The financial statements are audited by the independent auditors BDO Italia S.p.A.

2.3 Accounting standards and valuation criteria

Intangible assets

Concessions and other intangible assets consist of non-monetary elements, which can be identified as such and are not physically significant, controllable and capable of generating future economic benefits.

Concessions and other intangible assets are recognised at purchase and/or production cost, including directly attributable expenses for preparing the asset for use, net of accumulated amortisation and any impairment losses.

Amortisation of intangible assets begins when the asset is available for use and is systematically allocated in relation to its residual useful life, i.e. on the basis of its estimated useful life.

IFRIC 12 "Service Concession Arrangements" states that, based on the characteristics of the concession arrangement, the infrastructures used in the provision of public services under concession are to be recognised as intangible assets if the operator has the right to receive a payment from the customer for the service provided, or as a financial asset if the operator has the right to receive payment from the public sector entity.

In particular, IFRIC 12 applies to service concession arrangements from public to private if the concessionaire:

- controls or regulates which services the concessionaire is to provide with the infrastructure, to whom it is to provide them and at what price;
- controls, through ownership or otherwise, any significant residual interest in the infrastructure at the end of the term of the agreement.

In order to assess the applicability of these provisions for the Company, the management carried out a careful analysis of the concession for the distribution of electricity and methane gas. On the basis of these analyses, the application conditions provided for by the interpretation in question do not appear to be met, as the concessionaire has full control of the infrastructure.

Property, plant and equipment

Tangible assets are valued at purchase and/or production cost, net of accumulated depreciation and any impairment losses. The cost includes the costs directly incurred to make their use possible, as well as the costs incurred for ordinary and cyclical maintenance and repairs are directly charged to the income statement when incurred.

Operating properties are measured at fair value. Depreciation is charged on a straight-line basis at rates that allow the assets to be depreciated until their useful life is exhausted. During the 2017 financial year, the rates of the district heating network were changed, according to a specific technical report, from 30 to 40 years, and of the electricity network, which went from 25 to 35 years, in line with what was defined by the sector authority.

DESCRIPTION		DESCRIPTION	
INDUSTRIAL BUILDINGS AND LAND GENERAL PLANTS	2.50% 6.67%	REMOTE CONTROL	4.0%
TRANSFORMATION STATIONS	3.50%	TECHNICAL/OPERATIONAL EQUIPMENT	8.33%
SUB-STATIONS	3.50%	TRUCKS	14.29%
TRANSFORMERS	3.50%	VEHICLES	14.29%
ELECTRICITY DISTRIBUTION LINES	2.86%	MECCANOGRAPH CENTRE	14.29%
DATA TRANSMISSION NETWORKS	10.00%	FURNITURE	8.33%
		OFFICE MACHINES AND EQUIPMENT	14.29%
1ST REDUCTION STATIONS METHANE GAS	5.00%	•	
METHANE GAS PIPES	4.00%	START-UP/EXPANSION COSTS	5 YEARS
		SOFTWARE	3 YEARS
TANKS	2.00%	STUDIES AND RESEARCH	3 YEARS
LIFTING SYSTEMS	6.67%		
AQUEDUCT PIPES/SEWERAGE	2.50%	CONCESSIONS, LICENSES CED	5 YEARS
DISTRICT HEATING NETWORK	2.50%		RESIDUAL YEARS
METERING INSTRUMENTS	5.00%	THIRD PARTY ASSETS - HQ OFFICES	LEASE
METERING INSTRUMENTS DISTRICT HEATING	6.67%		

Equity investments

Investments in subsidiaries and other companies are valued at purchase cost, reduced if necessary for impairment losses, while investments in associated companies are valued using the equity method. Dividends from equity investments are recognised in the income statement when the shareholders' right to receive payment is established.

Trade receivables and other current and non-current assets

Trade receivables and other current and non-current assets are financial instruments, mainly relating to trade receivables, which are non-derivative and not listed on an active market, from which fixed or determinable payments are expected to flow. Trade receivables and other receivables are classified as current assets in the balance sheet, except for those with a contractual maturity of more than 12 months with respect to the reporting date, which are classified as non-current assets.

Trade receivables and other current and non-current assets are recorded at amortised cost taking into account the time factor. Impairment losses on receivables are recognised in the income statement when there is objective evidence that the Company will not be able to recover the receivable on the basis of the contractual terms. The amount of the write-down is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows. The value of receivables is shown in the financial statements net of the related provision for doubtful accounts.

Inventories

Inventories of raw and ancillary materials, consumables and goods are valued at the lower of their weighted average cost and market value at the reporting date.

The weighted average cost is determined by reference period for each inventory code. The weighted average cost includes direct material and labour costs and indirect costs (variable and fixed). Inventories are constantly monitored and, where necessary, obsolete stocks are written down with a charge to the income statement.

Cash and cash equivalents

These include bank current accounts and other short-term, highly liquid financial investments that can be readily converted into cash.

Treasury shares

Repurchases of treasury shares are deducted from the capital as they represent contributed capital. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or derecognition of equity instruments. The amount paid or received is recognised directly in equity. The amount of treasury shares held is shown separately in the notes, in accordance with IAS 1 presentation of the financial statements.

Financial liabilities trade payables and other payables

Financial liabilities, trade payables and other payables are initially recognised in the income statement at fair value, net of directly attributable incidental costs, and subsequently measured at amortised cost, applying the effective interest rate method. If there is an estimable change in the expected cash flows, the value of the liabilities is recalculated to reflect this change on the basis of the present value of the new expected cash flows and the internal rate of return initially determined. Financial liabilities are classified as current liabilities, unless the company has an unconditional right to defer their payment for at least 12 months after the reference date. Financial liabilities are derecognised when they are settled and when the Company has transferred all the risks and charges relating to them. The valuation at nominal value approximates the fair value.

Provisions for risks and charges

Provisions for risks and charges are recognised for losses and charges of a specific nature, whose existence is certain or probable, but whose amount and/or date of occurrence cannot be determined. Provisions are recognised only when there is a current obligation (legal or implicit) for a future outflow of economic resources as a result of past events and it is probable that such outflow will be required to settle the obligation. This amount represents the best estimate of the cost of settling the obligation. The rate used to determine the present value of the liability reflects current market values and takes into account the specific risk associated with each liability. The increase in the value of the provision due to a change in the cost of money over time is recorded as a financial expense. The risks for which the occurrence of a liability is only possible are highlighted in the specific information section on contingent liabilities and no provision is allocated for them.

Personnel provisions

Personnel provisions include defined contribution plans and defined benefit plans. With reference to defined contribution plans, costs relating to such plans are recognised in the income statement when incurred. With reference to defined benefit plans, the company's net liabilities are determined separately for each plan by estimating the present value of the future benefits that employees have accrued in the current year and in previous years and deducting the fair value of any assets at the service of the plan. The present value of obligations is based on the use of actuarial techniques that attribute the benefit deriving from the plan to the periods in which the obligation to disburse it arises (projected unit credit method) and is based on actuarial assumptions that are objective and compatible with each other. Plan assets are recognised and measured at fair value. If such calculation results in a contingent asset, the amount to be recognised is limited to the present value of any economic benefits available in the form of future refunds or reductions in future contributions to the plan. The components of the cost of defined benefits are recognised as follows:

- costs relating to the provision of services are recognised in the income statement under personnel costs;
- net financial expenses on a defined benefit liability or asset are recognised in the income statement as financial income/expense, and determined by multiplying the net asset/liability value by the rate used to discount the obligations taking into account contribution and benefit payments made during the period.
- the components used to measure the net liability, which include actuarial gains and losses, the return on assets, excluding interest income recognised in the income statement and any changes in the limit on assets, are immediately recognised in the statement of comprehensive income, among changes in shareholders' equity relating to items of an economic nature. Such components shall not be reclassified to profit or loss at a later period.

Revenue recognition

Revenues from the sale of goods are recognised in the comprehensive income statement at the time of transfer to the customer of the risks and rewards relating to the product sold, which normally coincides with the delivery or shipment of the goods to the customer; those for services are recognised in the accounting period in which the services are rendered. Revenues are recorded at fair value of the amount received. The Company recognises revenues when their amount can be reliably estimated and it is probable that the related future economic benefits will be recognised. Depending on the type of transaction, revenues are recognised on the basis of the following specific criteria:

- revenues from the sale and distribution of electricity, thermal energy, gas and water are recognised at the time of transfer of ownership, which essentially takes place at the time of supply or service, even if not

invoiced, and are determined by integrating with appropriate estimates those recorded by reading consumption.

Revenues from services are recorded at the time they are provided or in accordance with the terms of the contract.

Cost recognition

Costs are recognised at the time of acquisition of the good or service.

Taxes

Current taxes are calculated based on the taxable income for the period, applying the prevailing tax rates at the reporting date. Prepaid and deferred tax are calculated on the basis of all the differences that emerge between the tax value of an asset or liability and its book value. Deferred tax assets, including those relating to previous tax losses, are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. Deferred tax liabilities and assets are determined using the tax rates that are expected to be applicable in the years in which the differences will be realised or settled, on the basis of the tax rates in force or substantially in force at the reporting date. Current taxes and deferred tax liabilities and assets are recorded in the income statement, with the exception of those relating to items directly debited or credited to shareholders' equity, in which case the related tax effect is also recognised directly in shareholders' equity.

3. ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires the application by the Directors of accounting standards and methods which, in certain circumstances, are based on valuations and estimates based on historical experience and on assumptions that are from time to time considered reasonable and realistic in relation to the relative circumstances. The application of these estimates and assumptions influences the amounts recognised in the financial statements, as well as the information provided. The final results of the items of the financial statements for which said estimates and assumptions were used may differ from those in the financial statements that show the effects of the occurrence of the event subject of the estimate due to the uncertainty that characterises the assumptions and conditions on which the estimates are based. The following is a brief list of the items that, in relation to the Company, require the greatest subjectivity on the part of the Directors in making estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the Company's financial results.

a) **Impairment test**: the book value of tangible and intangible assets is reviewed periodically and whenever circumstances or events require more frequent review. If it is considered that the carrying amount of a group of non-current assets is impaired, the group is written down to its

recoverable amount which is estimated with reference to its use or future disposal, depending on the Group's latest plans. Management is of the opinion that the estimates of such recoverable amounts are reasonable, although possible changes in the factors underlying the estimates on which these recoverable amounts have been calculated could produce different measurements.

- b) **Deferred tax assets**: deferred tax assets are accounted for on the basis of expectations of taxable income in future years in order to recover them. The valuation of expected taxable income for the purposes of accounting for deferred tax assets depends on factors that may vary over time and have significant effects on the recoverability of receivables for deferred tax assets.
- c) **Provisions for risks and charges**: for legal risks, provisions are made to cover the risk of a negative outcome. The value of the provisions recorded in the financial statements relating to these risks represents the best estimate at the date made by the Directors. Such an estimate entails making assumptions that depend on factors that may change over time and which could therefore have a material impact with respect to the current estimates made by Directors for the preparation of the Company's financial statements.
- d) **Provision for doubtful accounts**: for legal risks on failure to collect trade receivables, provisions are made to cover the risk. The value of the provisions recorded in the financial statements relating to these risks represents the best estimate at the date made by the Directors. Such an estimate entails making assumptions that depend on factors that may change over time and which could therefore have a material impact with respect to the current estimates made by Directors for the preparation of the Company's financial statements.
- e) **Personnel provisions**: the book value of personnel provisions is calculated by external and independent experts and is based on actuarial assumptions.

4. ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BY THE IASB AND APPROVED BY THE EU, TO BE ADOPTED COMPULSORILY AS FROM THE FINANCIAL STATEMENTS OF THE YEARS BEGINNING ON 1 JANUARY 2017

The following amendments to the accounting standards issued by the IASB and implemented by the European Union are mandatory as from 1 January 2017:

IAS 7 - Cash Flow Statement. The amendment was issued on 29 January 2016 and requires an entity to provide information on changes in financial liabilities, whether arising from cash flows or of a non-monetary nature, in order to enable users of the financial statements to better assess the reasons for those changes. IAS 12 - Income Taxes. The amendment, issued on 19 January 2016, provides some clarifications and illustrative examples regarding the methods for recognising deferred tax assets relating to unrealised losses on debt instruments measured at fair value, as well as the criteria for determining future taxable income

against which deductible temporary differences may be used. The application of this amendment is not expected to have an impact on the company.

On 8 February 2018, EU Regulation 2018/182 was published, which contains some amendments to accounting standards IAS 28, IFRS 12 and IFRS 1. These amendments are applicable from 1 January 2017 for IFRS 12 and from 1 January 2018 for the others. The company does not expect any impact from the application of these amendments.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE COMPANY

The following accounting standards and amendments to accounting standards, which have already completed the EU endorsement process, will be applicable from 1 January 2018:

IFRS 9 - Financial instruments. In July 2014, the IASB published IFRS 9 "Financial Instruments", which was then incorporated into EU Regulation 2067/2016 of 22 November 2016. The standard is the result of a process that began in 2008 following the economic and financial crisis, with the objective of fully rewriting the accounting rules for the recognition and measurement of financial instruments set out in IAS 39. In summary, the provisions of IFRS 9 concern:

- the criteria for the classification and measurement of financial assets and liabilities. With regard to financial assets, the new standard uses a single approach based on management procedures for financial instruments and the contractual cash flow characteristics of the financial assets in order to determine the valuation criteria, replacing the many different regulations in IAS 39. In particular, the standard provides the following three categories for the classification of financial assets:
- a) financial assets measured at amortised cost;
- b) financial assets measured at fair value through other comprehensive income (FVOCI);
- c) financial assets measured at fair value through profit and loss (FVTPL).

For financial liabilities, however, the main change concerns the accounting treatment of changes in fair value of a financial liability designated as measured at fair value through profit and loss, in the event that these are due to changes in the creditworthiness of the liability. Under the new standard, these changes are to be recognised in other comprehensive income;

- impairment of financial assets. The standard replaces the current "incurred loss" model by introducing a new impairment model based on expected losses, where "loss" means the present value of all future missed collections, suitably integrated to take account of future expectations ("forward looking information"). The estimate must be made initially on the losses expected in the following 12 months; in consideration of any progressive deterioration of the credit, the estimate must be adjusted to cover the expected losses over the entire life of the credit. The standard also requires that adequate information on the estimation criteria used be provided;

hedging transactions (hedge accounting). IFRS 9 introduces some significant changes that mainly concern the effectiveness test, as the threshold of 80-125% is abolished and replaced by an objective test that verifies the economic relationship between the hedged instrument and the hedging instrument, the accounting of the cost of the hedge, the expansion of the hedged items and the required disclosures.

IFRS 15 - Revenues from contracts with customers. The standard, published by the IASB on 28 May 2014 and implemented by the European Union on 22 September 2016 in Regulation 1905/2016, replaces IAS 18 - Revenues, IAS 11 - Contract work, and the interpretations of SIC 31, IFRIC 13 and IFRIC 15. The new standard applies to all contracts with customers, except for contracts that fall within the scope of application of IAS 17 - Leases, for insurance contracts and for financial instruments. The purpose of the new standard is to establish the criteria to be adopted in order to provide users of financial statements with information regarding the nature, amount and uncertainties related to revenues and cash flows deriving from existing contracts with customers. In particular, IFRS 15 defines a revenue recognition model based on 5 steps:

- identification of the contract with the customer. A contract is an approved commercial agreement between two or more parties that creates rights and obligations that are due. The standard contains specific provisions for assessing whether two or more contracts should be combined and for identifying the accounting implications of a contractual modification;
- identification of the performance obligations contained in the contract;
- determination of the transaction price. In order to determine the price of the transaction, the following elements, among others, must be taken into account:
- a) any amounts collected on behalf of third parties (e.g. sales tax), which must be excluded from the price;
- b) variable price components (such as performance bonuses, penalties, rebates, incentives, etc.);c) financial component, where the payment terms grant the customer a significant deferment;
- allocation of the price to the performance obligations on the basis of the "Relative Stand Alone Selling Price";
- recognition of revenues when the performance obligation is met. The transfer of the good or service occurs when the customer obtains control of the good or service, that is, when it is possible to decide on and/or direct its use and obtain substantially all the benefits. The standard expressed by IAS 18 is replaced, whereby revenue is recognised considering the benefits obtainable from the asset and the assessment of the probability of collection of the related receivable. The control can be transferred at a point in time or over time.

This standard was further amended on 12 April 2016: the amendment, endorsed on 31 October 2017 and also applicable from 1 January 2018, clarifies the guidelines for identifying an obligation to sell a good or to

provide one or more services, for determining whether an entity acts on its own account (principal) or as an agent, and for providing indications on accounting of intellectual property licenses.

Amendments to IFRS 2 "Share-based payments". Document issued by the IASB on 20 June 2016 and implemented by the European Union on 26 February 2018 in Regulation 289/2018. The amendments, applicable from financial years beginning 1 January 2018 with the possibility of early application, clarify the accounting of certain types of share-based payment transactions. In particular, the amendments provide indications on:

- impact of vesting and non-vesting conditions on the valuation of cash-settled share-based payment transactions. In particular, it is clarified that at the valuation date (i.e. at the assignment date, at the end of each accounting period and at the settlement date), the fair value must be calculated taking into account the vesting and non-vesting conditions linked to market factors, such as the achievement of a certain market price within a pre-determined period of time, ignoring the vesting conditions linked to company performance and assuming, until proven otherwise, that the employee will remain in service;
- accounting of share-based payment transactions involving the application of withholding tax;
- reclassification of the transaction from cash-settled to equity-settled due to changes in the terms and conditions of the transaction.

This is a case study that is not currently present in the company, and therefore no impact is expected from the application of these new provisions.

The following accounting standards, which have already completed the EU endorsement process, will be applicable from 1 January 2019:

IFRS 16 - Leases. This standard, issued by the IASB on 13 January 2016, is intended to replace IAS 17 "Leases" and the interpretations of IFRIC 4 "Determining whether an agreement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluating the substance of transactions in the legal form of a lease". The new standard provides a new definition of lease, which does not depend on the contractual form adopted (lease, rental or hire) and in fact marks the end of the distinction between operating and financial lease.

IFRS 16 introduces a right of use policy of an asset to distinguish lease contracts from service contracts, identifying as discriminants: the identification of the asset, the right to replace the same, the right to obtain substantially all of the economic benefits arising from the use of the asset and the right to direct the use of the asset underlying the contract. On the lessee's side, the new standard requires the recognition in the balance sheet of assets and related financial liabilities for all lease contracts with a term of more than 12 months, unless the underlying asset has a low value; depreciation and interest expense must be recorded separately in the income statement. On the lessor's side, the impact on the financial statements is only greater disclosure. Its application at Alto Garda Servizi S.p.A. is envisaged as from 1 January 2019, although early application is permitted for entities that will apply IFRS 15.

5. ACCOUNTING STANDARDS NOT YET APPROVED BY THE EUROPEAN UNION

The following updates and amendments to the IFRS standards (already approved by the IASB) are currently being implemented by the competent bodies of the European Union:

Amendment to IAS 40 Property Investments, with entry into force on 1 January 2018. The amendment clarifies the application of paragraph 57 of IAS 40 by providing guidelines on changes that qualify an asset that was not an investment property as such or vice versa. The amendment clarifies that a change in management's intentions for the use of an asset is not sufficient to provide evidence of a change in use.

At the date of preparation of this document, the Company is analysing the implications deriving from the application of the new accounting standards reported above, assessing whether their adoption will have a significant impact on its financial statements in the future.

ESTIMATION OF FAIR VALUE

In relation to the items measured at fair value, the following table shows the information on the method chosen for the determination of the fair value. The applicable methodologies are divided into the following levels, based on the source of the available information, as described below:

- Level 1: fair value determined with regard to quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2: fair value determined using valuation techniques, based on inputs that are observable in active markets;
- Level 3: fair value determined using valuation techniques, based on market inputs that are not observable.

The table below shows the assets measured at fair value at 31 December 2017.

It was not considered necessary to draw up a new appraisal of the values of the electrical substations and of the operational properties/land since from April 2017 - the date of the appraisal - to date there have been no events that could have changed these values.

	At 31 December 2017					
	Level 1	Level 3				
Electrical cabins and operational properties/land	0	2,920,830	0			
Investment Alto Garda Power S.r.l.	0	6,439,600	0			
TOTAL	0	9,360,430	0			

With reference to the associated company Alto Garda Power S.r.l., the application of the equity method showed an increase in value of Euro 2,154,855 (note 8.17). It should be noted that in 2017, dividends of Euro 800 thousand were received in respect of the profit for 2016. The following elements were used for the evaluation of electrical substations and buildings/land:

- Urban planning data;
- Status of the buildings/lands;
- Market value.

6. NOTES TO THE STATEMENT OF FINANCIAL POSITION

7.1 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other assets	TOTAL
Balance as at 31 December 2016	4,145,566	25,641,362	2,073,919	156,576	32,017,423
Of which:	-	<u> </u>			
Historical cost	5,298,607	42,326,396	3,650,182	1,163,349	52,438,534
Accumulated amortisation	-1,153,041	-16,685,034	-1,576,264	-1,006,773	-20,421,112
Purchases	12,576	801,296	71,908	18,762	904,541
Disposals Derecognition of accumulated	0	0	0	0	0
depreciation	0	0	0	0	0
Write-down of assets	0	-10,500	0	0	-10,500
Amortisation	-111,222	-1,106,588	-209,995	-45,605	-1,473,409
Balance as at 31 December	_	_			
2017	4,046,920	25,325,571	1,935,831	129,732	31,438,054
Of which:					
Historical cost	5,311,183	43,117,192	3,722,090	1,182,111	53,332,575
Accumulated amortisation	-1,264,263	-17,791,621	-1,786,259	-1,052,378	-21,894,521

With regard to tangible assets, it should be noted that costs for services provided by internal personnel have been capitalised for Euro 195,401. It should be noted that from 2015, the amortisation of the gas networks has been suspended because the net book value is certainly lower than the value that will be recognised to the Company by the incoming operator at the time of the award of the tender, the announcement of which will be published presumably by the end of 2018.

During the 2017 financial year, the rates of the district heating network were changed, according to a specific technical report, from 30 to 40 years, and of the electricity network, which went from 25 to 35 years, in line with what was defined by the sector authority.

The item Land and Buildings includes electrical substations for a net value of Euro 2,920,830 at 31 December 2017, measured at *fair value* according to an independent expert's appraisal.

7.2 INTANGIBLE ASSETS

	Industrial patents and intellectual property rights	Concessions	Other intangible assets	TOTAL
Balance as at 31 December 2016	42,451	0	158,633	201,084
Of which:	-	-	-	
Historical cost	1,022,017	540,712	356,819	1,919,548
Accumulated amortisation	-979,566	-540,712	-198,186	-1,718,464
Increases	31,329	0	0	31,329
Amortisation	-34,374	0	-14,205	-48,579
Balance as of 31 December 2017	39,406	0	144,428	183,834
Of which:			<u>-</u>	
Historical cost	1,053,346	540,712	356,819	1,950,877
Accumulated amortisation	-1,013,940	-540,712	-212,391	-1,767,043

The item "Other intangible assets" includes capitalized improvements to the headquarters in Riva del Garda ,Via Ardaro 27 rented from the Municipality of Riva del Garda.

Note 7.3. EQUITY INVESTMENTS

The breakdown of the item "Equity investments" is shown below:

At 31 December

	2017	2016
Investments in subsidiaries	455,495	100,000
Investments in associated companies	6,439,600	5,084,715
Investments in other companies	10,426,522	10,426,522
TOTAL EQUITY INVESTMENTS	17,321,617	15,611,237

Pursuant to Article 2427, paragraph 5, of the Italian Civil Code, the following table summarises the main information relating to investee companies:

Subsidiaries	НQ	Share Capital	Shareholders' equity	Profit/ (loss) for the year	%	Book value
Ledro Energia S.r.l.	Via Ampola,28 38067 Ledro	1,200,000	455,495	-521,394	100	455,495
TOTAL						455,495

Associated companies		Share Capital	Shareholders' equity	Profit/ (loss) for the year	%	Book value
Alto Garda Power S.r.l.	Viale Rovereto, 15 38066 Riva del Garda	1,750,000	32,198,000	10,750,000	Investment 20	6,439,600
TOTAL						6,439,600

Other companies	но	Share Capital	Shareholders' equity	Profit/ (loss) for the year	%	Book value
					Investment	
Dolomiti Energia Hol. S.p.A.	Via Manzoni, 24 38068 Rovereto	411,496,169	501,642,754	46,710,985	1.18	5,381,324
Dolomiti Energia S.p.A.	Via Fersina, 23 38121 Trento	20,200,000	103,200,647	26,927,406	4.54	2,562,000
SET Distribuzione S.p.A.	Via Manzoni, 24 38068 Rovereto	112,241,777	161,062,168	10,696,150	2.14	2,400,358
Primiero Energia S.p.A.	Via Guadagnini, 31 38054 S.Martino	9,938,990	42,286,593	1,287,201	0.81	81,840
Distretto Tecnologico	P.za Manifattura, 1 38068 Rovereto	282,000	418,459	44,714	0.35	1,000
TOTAL						10,426,522

With regard to the equity investment in Ledro Energia S.r.l., it should be noted that on 30 March 2017, the share capital increase of Euro 1.1 million was subscribed and paid up in order to provide the company with the necessary equity. The same equity investment was written down (note 8.13) by Euro 744,505 in order to align the book value to the shareholders' equity as at 31 December 2017.

With reference to the associated company Alto Garda Power S.r.l., the application of the equity method showed an increase in value of Euro 2,154,855 (note 8.17). It should be noted that in 2017, dividends of Euro 800 thousand were received in respect of the profit for 2016. With regard to investments in other companies, the corresponding fractions of shareholders' equity attributable to them are, in all cases, well above their respective carrying amounts.

7.4 NON-CURRENT FINANCIAL RECEIVABLES

"Non-current financial receivables" at 31 December 2017 and 2016 are detailed below.

At 31 December

	2017	2016
Interest-bearing loan subsidiary Ledro Energia S.r.l.	6,100,000	5,200,000
Interest-bearing loan associate Alto Garda Power S.r.l.	977,446	939,289
Other receivables	207	207
Total	7,077,653	6,139,496

The maturity of the shareholder loan to Alto Garda Power S.r.l. is 31 December 2020 and will be repaid in full at maturity together with accrued interest. As regards the loan to the subsidiary Ledro Energia Srl it will be gradually repaid once the pellet production plant is fully operational and with the consequent cash flows that the company will generate.

7.5 DEFERRED TAX ASSETS

The following table breaks down deferred tax assets by type of temporary difference at 31 December 2017 and 2016.

Receivables for deferred tax assets IRES	Deferred ta	x assets 2017	Reabsorp	tions 2017	Increase	es 2017	Total de	ferred tax a	ssets
Deductible differences	Tax	Tax	Tax	Tax	Tax	Tax	Tax	Rate	Tax
Contributions connection users	1,030,350	247,284	-114,793	-27,550	0	0	915,557	24.00%	219,734
Allocation provision for write-down of inventories	164,462	39,471	0	0	0	0	164,462	24.00%	39,590
Statutory amortization exceeding tax	3,893,913	934,539	0	0	12,756	3,061	3,906,669	24.00%	937,601
Allocation doubtful accounts provision	228,194	54,767	0	0	0	0	228,194	24.00%	54,767
Other employee benefits	831,287	199,628	-17,725	-4,254	75,611	18,147	889,173	24.00%	213,402
Provisions for Risks	46,417	11,140	-46,417	-11,140	0	0	0	24.00%	0
Provision for write-down of tangible assets	127,621	30,629	0	0	10,500	2,520	138,121	24.00%	33,149
Total	6,322,244	1,517,457	-178,935	-42,944	98,867	23,728	6,242,176		1,498,241

Receivables for deferred tax assets IRAP	Deferred ta	x assets 2017	Reabsorp	tions 2017	Increase	es 2017	Total de	eferred tax a	ssets
Deductible differences	Tax	Tax	Tax	Tax	Tax	Tax	Tax	Rate	Tax
Contributions connection users	1,030,350	44,507	-114,793	-4,064	0	0	915,557	3.54%	40,443
Capitalisation of labour	1,814,087	64,219	-1,814,087	-64,219	0	0	0	3.54%	0
Allocation provision for write-down of inventories	164,462	5,822	0	0	0	0	164,462	3.54%	5,822
Provisions for Risks	46,417	1,643	-46,417	-1,643	0	0	0	3.54%	0
Provision for write-down of tangible assets	127,621	4,518	0	0	10,500	372	138,121	3.54%	4,889
Statutory amortization exceeding tax	751,775	26,613	-751,775	-26,613	0	0	0	3.54%	0
Total	3,934,712	147,321	-2,727,072	-96,538	10,500	372	1,218,140		51,155
	•						•		
Total receivables for deferred tax assets		1,664,779		-139,483		24,100			1,549,396

It should be noted that receivables for deferred tax assets relating to the difference between statutory and fiscal amortisation (energy and gas networks) will be reasonably recovered with the sale of the networks to the new concessionaires, during calls for the reallocation of services scheduled respectively for 2019 (gas

service) and 2030 (electricity service). As from 2017, deferred tax assets on the differences between statutory and fiscal depreciation of the electricity networks are no longer calculated, as it is considered that the maximum recoverable amount has been reached.

7.6 INVENTORIES

The breakdown of the item "Inventories" at 31 December 2017 and 2016 is provided below.

At 31 December

	2017	2016	
Raw and ancillary materials and consumables	446,856	549,954	
TOTAL	446,856	549,954	

7.7 TRADE RECEIVABLES

The breakdown of "Trade receivables" at 31 December 2017 and 2016 is provided below.

At 31 December

	2017	2016
Receivables from customers	5,516,669	4,948,993
Provision for doubtful accounts	-263,300	-279,197
TOTAL	5,253,369	4,669,796

Trade receivables, shown net of the related provision for doubtful accounts, mainly includes trade receivables and provisions for invoices to be issued for the distribution of energy and gas and the sale of heat and water at their estimated realisable value. Receivables refer entirely to the geographical area of Italy.

The provision for doubtful accounts showed the following changes in 2017 and 2016:

Provision for doubtful accounts

At 1 January 2016	279,614
Allocations	25,093
Utilisations	-25,510
At 31 December 2016	279,197
Allocations	0
Utilisations	-15,897
At 31 December 2017	263,300

7.8 RECEIVABLES FROM PARENT, SUBSIDIARY AND ASSOCIATED COMPANIES

The breakdown of the item "Receivables from parent, subsidiary and associated companies" at 31 December 2017 and 2016 is provided below.

	At 31 December	
	2017	2016
Receivables from parent company	201,869	102,139
Receivables from subsidiaries	221,434	145,238
Receivables from associated companies	6,530	2,496
TOTAL	429,833	249,873

They mainly relate to receivables from the Municipality of Riva del Garda for routine and non-routine maintenance of public lighting systems and for the management of the Consortium Aqueduct. Receivables from subsidiaries refer to technical/administrative services provided for Ledro Energia S.r.l., governed by a specific service contract.

7.9 CURRENT TAX RECEIVABLES

The breakdown of the item "Current tax receivables" at 31 December 2017 and 2016 is provided below.

At 31 December

	2017	2016
VAT	0	82,791
IRES reimbursement 2007- 2011	111,397	111,397
IRES	15,668	85,934
Total	127,065	280,122

7.10 OTHER CURRENT ASSETS

The breakdown of the item "Other current assets" at 31 December 2017 and 2016 is provided below.

At 31 December

	2017	2016
PAT and Municipalities – deposit of road cuts and various deposits	73,514	54,831
Gas revenues equalisation fund	0	60,000
Energy revenues equalisation fund	675,429	286,402
PAT – advance gas tender costs	43,081	43,081
PAT - district heating network contributions	0	39,559
Equalization fund 6th two-month period 2017	93,123	58,221
INAIL	624	1,700
Sundry	151,464	140,928
Accrued and deferred assets	39,484	43,666
Total	1,076,719	728,388

It should be noted that the Regulatory Authority for Energy, Networks and the Environment has not yet definitively approved the tariffs for the electricity sector for the year 2016 and therefore, the Equalisation Fund has not yet paid the balance of the electrical equalisation. As a result, the amount due from the

Equalisation Fund went from Euro 286 thousand to Euro 675 thousand. The calculation of the gas and energy equalisation for the year 2017 was carried out with the support of expert and independent consulting firms.

7.11 CASH AND CASH EQUIVALENTS

The breakdown of the item "Cash and cash equivalents" at 31 December 2017 and 2016 is provided below.

At 31 December

	2017	2016
Bank and postal deposits	542,145	456,060
Cash-in-hand and cash equivalents	28	1,250
TOTAL	542,173	457,310

This item includes cash on hand and bank deposits actually available.

SHAREHOLDERS' EQUITY

7.12 SHAREHOLDERS' EQUITY

Changes in shareholders' equity reserves are reported in the schemes of these financial statements. Euro 527,000 was recognised as a result of the merger in 2015 with Alto Garda Servizi Teleriscaldamento S.p.A. At 31 December 2017, the Company's share capital amounted to Euro 23,234,016 and consisted of 446,808 ordinary shares with a nominal value of Euro 52 each. During 2017, Euro 630 thousand, equal to Euro 1.50 per share, was distributed.

The breakdown of shareholders' equity is shown below:

At 31 December

	2017	2016
Share capital	23,234,016	23,234,016
Legal reserve	1,224,261	1,079,106
Share premium reserve	2,937,747	2,937,747
Reserve for portfolio treasury shares	-3,151,300	-3,151,300
Extraordinary reserve	15,018,220	12,889,910
FTA reserve	1,589,613	1,589,614
IAS 19 reserve	81,541	124,263
Retained earnings reserve	817,915	817,915
Profit/ (loss) for the year	3,176,388	2,903,090
TOTAL SHAREHOLDERS' EQUITY	44,928,401	42,424,361

The following table provides the analysis of shareholders' equity under the profiles of availability and distributability of reserves.

previous financial years possibility of for loss for other Description amount use available reasons units coverage Share Capital 23,234,016 Capital reserves 2,937,747 2,937,747 share premium reserve A,B Profit reserves - revaluation reserves 1,224,261 1,224,261 - legal reserve - reserve for portfolio treasury shares (3,151,300)- statutory reserves 15,018,220 A.B.C 15,018,220 587,650 extraordinary reserve

- extraordinary reserve 15,018,220 A,B,C 15,018,220 - 587,650
- FTA reserve 1,589,614 - - IAS 19 reserve 81,541 - - - retained earnings or losses 817,915 A,B,C
Totals 41,752,014 19,180,228 - 587,650

Non-distributable portion (3,195,947)

Residual distributable portion 15,984,281

A: for capital increase

B: for loss coverage

C: for distribution to shareholders

Summary of utilisations in the three

7.13 CURRENT AND NON-CURRENT FINANCIAL PAYABLES

The table below shows current and non-current financial payables at 31 December 2017 and 2016.

	At 31	At 31 December		December
		2017		2016
	Current	Non-current	Current	Non-current
Payables to banks	1,548,235	6,966,135	2,814,090	5,107,982
Bond	0	5,000,000	0	5,000,000
TOTAL	1,548,235	11,966,135	2,814,090	10,107,982

On 15 July 2014, the company issued a bond for Euro 5 million with payment of semi-annual coupons and repayment in a lump sum at 30 June 2023. The loan was fully subscribed and is currently listed on the Vienna Stock Exchange: the price on the date of admission was 100 and at the end of the year there were no deviations.

7.14 EMPLOYEE BENEFITS

The Company provides employees (including retired employees) with both post-employment and other benefits. These benefits include "employee severance indemnities", additional monthly payments for reaching age limits or for accrual of the right to retirement pension, loyalty bonuses for reaching certain seniority requirements at the company and discounts on the price of electricity consumed for domestic use. Employee benefits are calculated with the support of two independent experts.

Changes in the Employee Severance Indemnity and other employee benefits for the years ended 31 December 2017 and 31 December 2016 are shown below:

At 31 December 2016

	TFR	Loyalty Bonuses	Monthly salaries Additional	Energy discounts	Total
Liabilities at the start of the period	729,069	69,593	159,547	466,597	1,424,806
Current cost of the service	69,112	4,883	10,084	3,282	87,361
Interest from discounting	13,834	1,410	3,239	9,472	27,955
Benefits paid	-76,984	0	-7,686	-19,762	-104,432
Actuarial losses/(gains)	-4,654	754	9,132	-30,655	-25,423
Liabilities at the end of the period	730,377	76,640	174,316	428,934	1,410,267

At 31 December 2017

	TFR	Loyalty Bonuses	Monthly salaries Additional	Energy discounts	Total
Liabilities at the start of the period	730,377	76,640	174,316	428,934	1,410,267
Current cost of the service	40,909	5,160	11,067	0	57,136
Interest from discounting	9,569	1,004	2,284	5,619	18,476
Benefits paid	0	0	0	-17,725	-17,725
Actuarial losses/(gains)	2,666	-1,437	-1,911	43,404	42,722
Liabilities at the end of the period	783,521	81,367	185,756	460,232	1,510,876

The following is a breakdown of the assumptions used in the actuarial valuations:

At 31 December

	2017	2016
Discount rate/discount	1.30%	1.31%
Inflation rate	1.50%	1.50%
Overall salary increase rate	1.00%	1.00%
Annual TFR increase rate	2.63%	2.63%

Under the terms of IAS 19.145, the sensitivity analysis shows a maximum differential of Euro 25 thousand. The analysis was carried out by changing the turnover rate by +/- 1%, the inflation rate by +/- 0.25% and the discount rate by +/- 0.25%.

7.15 PROVISIONS FOR RISKS AND CHARGES

The item "Provisions for risks and charges" amounted to Euro as at 31 December 2017 and is broken down as follows:

At 31 December

	2017	2016
Provisions for risks and charges	0	46,417
TOTAL	0	46,417

7.16 TRADE PAYABLES

The table below shows "Trade payables", which include payables for the supply of goods and provision of services, at 31 December 2017 and 31 December 2016. Payables refer entirely to the geographical area of Italy. All payables are due within one year.

At 31 December

	2017	2016
Suppliers of goods and services	683,570	999,431
Invoices to be received	313,855	420,126
Total	997,425	1,419,557

7.17 PAYABLES TO PARENT COMPANY, ASSOCIATED COMPANIES, SUBSIDIARIES

The table below shows "Payables to parent, associated and subsidiary companies" at 31 December 2017 and 31 December 2016. Payables refer entirely to the geographical area of Italy.

At 31 December

	2017	2016
Payables to parent company	182,198	245,411
Payables to subsidiaries	1,208,170	1,093,286
Payables to associated companies	-151,212	123,223
TOTAL	1,239,156	1,461,920

They refer mainly to payables to the parent entity, the Municipality of Riva del Garda, for "Municipal Concessions" and other commercial items connected with concessions for electricity, gas, drinking water/sewerage and electricity production services, which are governed by specific service contracts. Trade payables consist of the portion of the water cycle tariff that the Company pays to the Municipality of Riva del Garda to cover the costs incurred by the Municipality for the water network. Payables to parent company also include the purification component that refers to the billing portion for the water service performed by AGS S.p.A. at 31 December 2017 to end customers and that is then turned over to the Municipality of Riva del Garda.

Payables to subsidiaries are due to the transfer by the subsidiary Ledro Energia S.r.l. of some of its receivables from the tax authorities for direct taxes to the parent company in relation to the tax consolidation.

7.18 TAX PAYABLES

The table below shows "Tax payables" at 31 December 2017 and 31 December 2016.

At 31 December

	2017	2016
Tax liabilities IVA	162,307	0
Tax liabilities IRAP	12,504	977
Withholding taxes on employees and collaborators IRPEF	82,530	95,616
Virtual stamp duty	0	1,494
Total	257,341	98,087

Payables for IRPEF relate to withholdings regarding employees for December paid in January 2017.

7.19 OTHER CURRENT PAYABLES

The table below shows "Other current payables" at 31 December 2017 and 31 December 2016.

At 31 December

	2017	2016
Payables to pension and social security institutions Social	238,902	234,516
Payables to employees	269,310	253,526
Other payables	29,238	2,522
Payables to the Equalisation Fund	1,537,001	1,265,867
Advances from customers	9,880	0
Accrued and deferred liabilities	914,689	1,030,350
TOTAL	2,999,020	2,786,781

Payables to social security institutions refer to charges and withholdings from employees paid in the following month. Payables to employees include productivity bonuses (Euro 146 thousand) and holidays accrued but not taken (Euro 109 thousand). Deferred liabilities refer to user connection contributions made up to 2007, as from 2008 these contributions were recognised directly in the income statement. Amounts due to the Equalisation Fund refer to items invoiced in the 6th two-month period of 2017 and paid in January and February 2018.

7. NOTES TO THE INCOME STATEMENT

8.1 REVENUES FROM SALES AND SERVICES

Revenues are entirely generated in Italy and are broken down as follows:

	31.12.2017	31.12.2016
Revenues from electricity transmission	2,867,561	2,690,781
Revenues from electricity generation	131,992	202,685
Revenues from gas transmission	2,236,269	2,135,675
Revenues from water service management	1,363,235	1,308,483
Heat revenues	3,038,879	2,887,431
Other revenues	517,467	576,624
Total	10,155,403	9,801,679

Revenues from the transmission of electricity and gas increased due to the higher quantities distributed compared to the previous year. It should be noted that this increase has no effect on the margin as the company is in the revenues constraint regime.

8.2 OTHER REVENUES AND INCOME

A breakdown of the item "Other revenues and income" for the year ended 31 December 2017 and 2016 is provided below.

	31.12.2017	31.12.2016
Services provided to subsidiaries	118,335	101,520
Contributions from equalisation systems	266,611	286,402
Revenues from management of aqueduct plants	159,635	175,951
Revenues from public lighting services	159,029	123,316
Operating contingent assets	86,330	113,479
Capital gain on sale of water network improvements	0	143,960
Reintroduction of contributions to water networks	0	195,389
Revenues from other services provided to third parties	403,611	411,815
Total	1,193,551	1,551,832

8.3 INCREASES IN FIXED ASSETS FOR INTERNAL WORK

	31.12.2017	31.12.2016
material capitalisation	306,831	328,493
capitalisation of internal labour	195,401	146,086
Total	502,232	474,579

8.4 CHANGE IN INVENTORIES

The breakdown of the item "Change in inventories" for the year ended 31 December 2017 and 2016 is provided below.

	31.12.2017	31.12.2016
Raw and ancillary materials and consumables	0	2,254
Total	0	2,254

8.5 COSTS OF RAW MATERIALS, CONSUMABLES AND GOODS

The breakdown of the item "Costs for raw materials, consumables and goods" for the year ended 31 December 2017 and 2016 is shown below.

	31.12.2017	31.12.2016
Purchase of drinking water	5,626	5,626
Purchase of electricity	155,950	215,531
Purchase of heat	1,293,538	1,140,547
Purchase of warehouse material	411,117	504,033
Purchase of other materials	140,510	103,226
Change in inventories	103,098	0
Total	2,109,839	1,968,963

8.6 COSTS FOR SERVICES

The breakdown of the item "Costs for services" for the year ended 31 December 2017 and 2016 is shown below.

	31.12.2017	31.12.2016
Electricity transport fees	980,211	943,771
Insurance	149,453	168,694
Bank charges and fees	26,662	58,956
Administrative consultancy	108,835	188,865
Network maintenance costs	501,883	587,775
Electricity, gas and water costs	103,616	121,385
Software fees	176,942	167,332
Employee training costs	19,555	26,566
Meter reading costs	103,185	101,898
Other costs	388,590	392,693
Total	2,558,932	2,757,935

8.7 COSTS FOR THE USE OF THIRD-PARTY ASSETS

The breakdown of the item "Costs for the use of third-party assets" for the year ended 31 December 2017 and 2016 is provided below.

	31.12.2017	31.12.2016
Rental expenses	101,485	101,003
Concession fees	450,897	450,248
Total	552,382	551,251

8.8 PERSONNEL COSTS

The breakdown of the item "Personnel costs" for the year ended 31 December 2017 and 2016 is provided below.

	31.12.2017	31.12.2016
Wages and salaries	2,191,406	2,160,053
Social security costs	714,914	720,527
Employee severance indemnity (TFR)	155,252	148,291
Other costs	100,141	65,739
Total	3,161,713	3,094,610

8.9 AMORTISATION/DEPRECIATION OF FIXED ASSETS

The breakdown of the item "Amortisation, depreciation, provisions and write-downs" for the year ended 31 December 2017 and 2016 is provided below.

	31.12.2017	31.12.2016
Depreciation of Intangible assets	48,579	44,424
Depreciation of Tangible assets	1,473,409	1,730,994
Total	1,521,988	1,775,418

The decrease in depreciation of tangible assets is due to the change in the rates of district heating networks from 30 to 40 years and of electricity distribution networks from 25 to 35 years.

8.10 PROVISIONS AND WRITE-DOWNS

The breakdown of the item "Provisions and write-downs" for the year ended 31 December 2017 and 2016 is provided below.

	31.12.2017	31.12.2016
Provision for doubtful accounts	0	25,093
Write-downs of tangible assets	10,500	127,621
Total	10,500	152,714

8.11 OTHER OPERATING EXPENSES

The breakdown of the item "Other operating expenses" for the year ended 31 December 2017 and 2016 is provided below.

•	31.12.2017	31.12.2016
Gas equalisation costs	451,908	382,859
Losses on ordinary operations	0	69,025
Charges on common conventions	108,786	103,590
Operating contingent liabilities	17,169	125,000
Other operating expenses	253,538	203,338
Total	831,401	883,812

Contingent liabilities refer to adjustments to the gas and energy equalisation for 2016.

8.12 INCOME FROM EQUITY INVESTMENTS

The breakdown of the item "Income from equity investments" for the year ended 31 December 2017 and 2016 is provided below.

_	31.12.2017	31.12.2016
Income from investments in subsidiaries	0	0
Income from investments in other companies	1,218,748	1,460,868
Total	1,218,748	1,460,868

Income from equity investments includes dividends received from Dolomiti Energia Holding S.p.A., Dolomiti Energia S.p.A. and Set Distribuzione S.p.A.

8.13 WRITE-DOWN OF INVESTMENTS

The equity investment in the subsidiary Ledro Energia S.r.l. was written down for Euro 744,505, equal to the losses accumulated up to 31 December 2017.

8.14 FINANCIAL EXPENSES

The breakdown of the item "Financial expenses" for the year ended 31 December 2017 and 2016 is provided below.

	31.12.2017	31.12.2016
Bank interest expense	19,509	2,905
Interest expense on bond	172,515	179,407
Interest expense on mortgages	47,896	88,844
Interest from discounting	18,474	27,957
Total	258,394	299,113

8.15 FINANCIAL INCOME

The breakdown of the item "Financial income" for the year ended 31 December 2017 and 2016 is provided below.

	31.12.2017	31.12.2016
Interest income from subsidiaries	86,314	36,215
Interest income from associated companies	38,157	39,368
Other financial income	5,079	6,413
Total	129,550	81,996

8.16 REVALUATIONS

There were no such items in the 2017 financial year.

8.17 GAINS AND LOSSES FROM INVESTMENTS - EQUITY METHOD

These refer to 20% of the result of the year of the associated company Alto Garda Power S.r.l.

	31.12.2017	31.12.2016
Alto Garda Power S.r.l.	2,154,885	1,056,000
Total	2,154,885	1,056,000

8.18 CURRENT AND DEFERRED TAX

The taxes for the year recorded in the income statement of these consolidated financial statements for a total of Euro 393,945 are as follows:

	-	
	31.12.2017	31.12.2016
Current taxes IRAP and IRES	273,826	117,198
Deferred taxes IRES and IRAP	91,832	27,365
Taxes previous year IRES and IRAP	28,287	-46,387
Total	393,945	98,176

8. **GUARANTEES AND COMMITMENTS**

The breakdown of guarantees undertaken by the Company at 31 December 2016 and 2015 is provided below.

	At 31 December	
	2017	2016
Guarantees issued to third parties	704,285	704,285
Guarantees issued to subsidiaries	1,950,000	1,950,000
TOTAL	2,654,285	2,654,285

The main contractual obligations relate to take-or-pay contracts on the basis of which AGS S.p.A. is obliged to withdraw minimum volumes of thermal and electrical energy from Alto Garda Power S.r.l. The amounts due were calculated on the basis of the gas purchase and electricity sales price assumptions for 2017.

Take-or-pay purchase commitments	2018	2019	2020	2021	After	Total
Thermal energy	794,055	794,055	794,055	794,055	1,588,110	4,764,330
Electricity differential	215,531	215,531	215,531	215,531	431,062	1,293,186
Total	1,009,586	1,009,586	1,009,586	1,009,586	2,019,172	6,057,516

9. FEES TO DIRECTORS AND STATUTORY AUDITORS

The following is the breakdown of fees to the Company's Directors and Statutory Auditors for the years ended 31 December 2017 and 2016.

	At 31 December	
	2017	2016
Directors' fees	47,687	49,347
Board of Auditors' fees	27,260	27,444
TOTAL	74,947	76,791

10. FEES OF THE INDEPENDENT AUDITORS.

The table below shows the fees received by the independent auditors BDO Italia S.p.A. for the years ended 31 December 2017 and 2016.

	At 31 December	
	2017	2016
Statutory audit of annual accounts	17,778	12,475
Other consultancy services provided	0	0
Tax advisory services	0	0
Other audit and accounting organisation services	11,362	0
TOTAL	29,140	12,475

11. SIGNIFICANT EVENTS THAT OCCURRED AFTER THE END OF THE YEAR

No significant events occurred after the end of the 2017 financial year.

12. PROPOSAL FOR THE ALLOCATION OF PROFITS OR COVERAGE OF LOSSES

It is hereby proposed to the Meeting to allocate the profit for the year of Euro 3,176,388 as follows:

- Euro 158,819 equal to 5% to the legal reserve;
- Euro 1,354,885 to the non-distributable reserve, being related to the result for the year of the associated company Alto Garda Power S.r.l., valued using the equity method, and not being a dividend paid.
- Euro 713,575 ordinary dividend to shareholders corresponding to Euro 1.70 per share, also proposing that the payment be made as from 30 September 2018;
- Euro 949,109 to the extraordinary reserve.

Riva del Garda, 27 March 2018

The Chair

Andrea Mora

Certification of the Financial Statements

The undersigned Andrea Mora, Chair of the Board of Directors, and Andrea Carloni, Administration Manager of Alto Garda Servizi S.p.A., certify, taking into account the provisions of current legislation:

- the adequacy in relation to the characteristics;
- the effective application of administrative procedures and controls for the preparation of the annual financial statements during the period from 1 January 2017 to 31 December 2017.

In this regard, no significant aspects emerged in the effective application of the procedures or in any reference to the body of general principles used in the preparation of the certification.

It is also certified that:

The financial statements at 31.12.2017:

- have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to the information contained in the accounting ledgers and records;
- provide a true and fair representation of the equity, economic and financial situation of the Company in question.

The Report on Operations includes a reliable analysis of the results of operations, as well as the situation of the issuer, together with a description of the principal risks and uncertainties to which they are exposed.

Riva del Garda, 27 March 2018

Chair of the Board of Directors

Andrea Mora

Administration Manager

Andrea Carloni

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

To the shareholders' meeting of "Alto Garda Servizi SpA"

To the Shareholders,

This report was approved collectively and in time for filing at the Company's registered office within the terms of the law.

On 27 March 2018, the Board of Directors approved and made available the draft annual financial statements as at 31 December 2017 and the accompanying reports in accordance with the legal and statutory deadlines.

The approach of this report is inspired by the law and the standards of conduct of the board of statutory auditors recommended by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (Italian Professional Order of Tax Advisors).

AGS SpA, following the listing of the minibond on the Second Regulated Market of the Vienna Stock Exchange on 12.12.2016, assumed the status of Public Interest Entity, with the obligation to prepare its financial statements using IAS/IFRS international accounting standards;

The Company, as a Public Interest Entity, pursuant to Article 19, Legislative Decree 39/2010, has entrusted the Board of Statutory Auditors with the role of Internal Control and Audit Committee, which is responsible for supervising and overseeing the independent statutory audit and internal control systems.

The current Board of Statutory Auditors was appointed by the Shareholders at the Ordinary Shareholders' Meeting on 20.06.2017.

Supervisory activities

- we have monitored compliance with the law, the articles of association and the regulations as well as with the principles of proper administration;
- we have attended two ordinary Shareholders' Meetings and five meetings of the Board of Directors, which were held in accordance with the laws, articles of association and regulations governing their operation. The resolutions passed complied with the law and the articles of association and were not manifestly imprudent or such as to compromise the integrity of the company's assets;

- we have periodically obtained from the Directors information on the general performance of the Company's business and its foreseeable evolution, as well as on the most significant transactions, in terms of size or characteristics, carried out also by the wholly-owned subsidiary. To this end, we can reasonably assure you that the actions taken comply with the law and the articles of association and do not appear manifestly imprudent, reckless, or likely to compromise the integrity of the company's assets;
- BDO Italia SpA was appointed to perform the legal audit of AGS SpA for the period 2016-2024;
- we have periodically met with BDO Italia SpA in accordance with the law. During the meetings, no relevant data or information emerged that needs to be highlighted in this report;
- we have monitored the independence of the auditing firm and ascertained the absence of critical aspects;
- we have monitored the adequacy of the organisational and functional structure of the company and any changes to it with respect to the minimum requirements posed by the operating performance. No specific comments are made on the adequacy of the Company's organisational structure, nor on the adequacy of the administrative and accounting system, nor on the reliability of the latter in correctly representing management events;
- we did not detect any atypical and/or unusual transactions with related parties or third parties;
- with regard to transactions with related parties, these are adequately described in the notes to the financial statements and we refer you to them with regard to their characteristics and economic significance. The above transactions are congruous and in the interest of the Company.
- We have performed, in the role as the "Internal Control and Audit Committee",
 the information, monitoring, control and verification functions provided for in
 Article 19 paragraph 1 Legislative Decree 39/2010;
- on 13 April 2018, the Independent Auditors delivered the Additional Report pursuant to Article 11 of EU Regulation 537/14 to the Board of Statutory Auditors,

- as the body identified to perform the role of Internal Audit Committee; in said Report, the independence of the Independent Auditors;
- the Company, which is controlled by public bodies, complies with the expenditure containment measures set out in the Memorandum of Understanding signed on 20.09.2012 by the President of the Autonomous Province of Trento, the Councillor for Local Authorities and the President of the Autonomous Communities.
- no action had to be taken due to omissions by the Board of Directors pursuant to Article 2406 of the Italian Civil Code;
- no complaints were reported under Article 2408 of the Italian civil code;
- no complaints have been made pursuant to Article 2409, paragraph 7, of the Italian Civil Code;
- relations with the Supervisory Board are also ensured by the participation of a member of the Board of Statutory Auditors in said Board. A periodic report was submitted to the Board of Directors in a timely manner, from which no critical issues have emerged. The Organisational Model has been updated;
- The Company has appointed a Transparency Officer, who has periodically reported back to the Board of Directors in accordance with the law.
- The Company has taken steps to publish on its institutional website in the "Transparent Company" section the declarations made pursuant to Legislative Decree no. 33/2013 and Legislative Decree no. 39/2013;
- the Company has appointed a Corruption Prevention Officer who prepared the three-year corruption prevention plan and has periodically reported to the Board in accordance with the law.

In terms of time, the activities carried out by the board of statutory auditors covered the entire financial year. During the financial year, 12 meetings were regularly held pursuant to Article 2404 of the Italian Civil Code, and minutes of those meetings were duly signed for unanimous approval.

Comments and proposals on the financial statements and its approval

We have examined the draft balance sheet as at 31.12.2017, which can be summarised as follows

BALANCE SHEET	31.12.2017	31.12.2016
Non-current assets	57,570,554	55,634,019
Current assets	7,876,015	6,935,443
Total Assets	65,446,569	62,569,462
Non-current liabilities	13,476,991	11,564,666
Current liabilities	7,041,177	8,580,435
Shareholders' equity including net period		
profit/(loss)	44,928,401	42,424,360
	65,446,569	62,569,461
INCOME STATEMENT		
Total operating revenues and income	11,851,187	11,830,344
Total operating costs	10,746,755	- 11,184,701
Gross operating profit/(loss)	1,104,432	645,643
Income from equity investments	1,218,747	1,460,868
Write-down of investments -	744,505	-
Charges net of financial income -	128,844	- 217,117
Revaluations	-	53,672
Income and expenses from investments using the		
equity method	2,154,885	1,058,200
Pre-tax profit/(loss)	3,604,715	3,001,266
Current and Deferred Tax -	428,327	- 98,176
Net result of the year	3,176,388	2,903,090
Amounts that will not be reclassified in the profit/(loss) for the year	42,722	- 25,830
Amounts that will be reclassified to period profit/(loss)		
Period profit/(loss)	3,133,666	2,877,260

AGS SpA has prepared the financial statements and the report on the financial statements by applying the IAS/IFRS international accounting standards adopted in accordance with EC Regulation No. 1606/2002 and endorsed by EC Regulation No. 1725/2003, as amended.

The accounting standards, measurement criteria and estimates, as necessary, adopted are consistent with those used for the preparation of the financial statements as at 31.12.2016 presented for comparative purposes.

On 13 April 2018, the Auditing Company has prepared and delivered the "Report of the

independent auditing company" pursuant to Article 14, Legislative Decree No. 39 of 27

January 2010 and Article 10 of Regulation (EU) No 537/2014".

Since we are not entrusted with the statutory audit of the accounts, we have audited the

general layout of the financial statements, their general compliance with the law with

regard to their formation and structure, including compliance with the legal provisions

concerning the preparation of the Report on Operations, and in this regard we have no

particular observations to report.

With regard to the Board of Directors' proposal on the allocation of the net profit for the

year as set forth in the Report on Operations, the Board has nothing to report, noting,

however, that the decision on this matter is up to the Shareholders' Meeting.

Financial period profit/(loss)

The net result ascertained by the Board of Directors for the financial year ended 31

December 2017, as is also evident from a reading of the financial statements, is a profit

of Euro 3,176,388=.

Conclusions

On the basis of the foregoing, to the best of the knowledge of the Board of Statutory

Auditors and ascertained from the periodic audits carried out, it is unanimously deemed

that there are no reasons to prevent you from approving the draft financial statements for

the year ended 31 December 2017 as prepared and proposed to you by the Board of

Directors.

Arco, 13 April 2018

The Board of Statutory Auditors

Michela Zambotti

Francesco Dalla Sega

Rodolfo Marcolini

Alto Garda Servizi S.p.A.

Report of the independent auditing firm pursuant to Article 14 of Legislative Decree no. 39 of 27 January 2010 and Article 10 of Regulation (EU) no. 537/2014

Financial Statements at 31 December 2017





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Report of the independent auditing firm

pursuant to Article 14 of Legislative Decree no. 39 of 27 January 2010 and Article 10 of Regulation (EU) no. 537/2014

To the Shareholders of Alto Garda Servizi S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the company Alto Garda Servizi S.p.A. (the "Company"), consisting of the balance sheet as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement for the year then ended, and the notes to the financial statements, which also include a summary of the most significant accounting policies applied.

We believe that the financial statements provide a true and fair view of the equity and financial position of the company at 31 December 2017, of the economic result and the cash flows for the year ended at said date, in compliance with the International Financial Reporting Standards adopted by the European Union and with the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/'05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italy). Our responsibilities under these standards are further described in the section on *Audit Firm Responsibilities* for the Audit of the Annual Financial Statements of this report.

We are independent of the Company in accordance with the ethics and independence rules and principles applicable in the Italian legal system to the auditing of financial statements. We believe that we have acquired sufficient and appropriate evidence on which to base our opinion.

Key aspects of auditing

The key audit aspects are those aspects which, in our professional opinion, were most significant in the audit of the financial statements for the year under review. These issues were addressed by us as part of our audit and in forming our opinion on the financial statements as a whole; therefore we do not express a separate opinion on them.



Key aspects

Audit procedures in response to key issues

Fair value valuations

Note 7.1 "Tangible assets"

In the financial statements as at 31 December 2017, the Company recorded tangible fixed assets in the amount of Euro 31.4 million, of which Euro 2.9 million, representing 4.5% of total assets, related to electrical substations, buildings and land.

Tangible assets are valued at purchase and/or production cost, net of depreciation and any impairment losses.

The cost includes charges directly incurred to make their use possible. Operating properties are measured at *fair value*. Depreciation is charged on a straight-line basis at rates that allow the assets to be depreciated until their useful life is exhausted.

In order to determine *fair values*, the Company used the support of an independent expert.

This item was considered significant overall in the context of the audit due to its amount and the peculiarities of the valuation and fair value assessment processes.

The main audit procedures carried out concerned:

- conducting discussions with the Company's management in order to understand which assets could be measured at fair value, taking into account what was done with reference to the previous year's financial statements;
- the reconciliation of the values adopted in the financial statements based on the expert documents obtained by the Company;
- the evaluation of the competence, capacity and objectivity of the expert appointed by the Company's Management to carry out the appraisals on the assets subject to fair value assessment;
- the assessment of the reasonableness of the sustainability of the appraisals with respect to the general knowledge of the Company, the environment in which it operates and the regulatory framework of reference at the date of this report;
- the comparison, feedback and sharing with the Company's Management of the assumptions used by the independent expert with respect to the situation at the date of preparation of the financial statements:
- the audit of the information provided in the Notes to the financial statements.

Valuation of equity investments

Note 7.3 "Equity Investments"

In the financial statements as at 31 December 2017, the Company showed equity investments amounting to Euro 17.3 million, representing 26.5% of total assets.

Investments in subsidiaries and other companies are valued at purchase cost, reduced if necessary for impairment losses, while investments in associated companies are valued using the equity method. Dividends from equity investments are recognised in the income statement when the shareholders' right to receive payment is established.

The main audit procedures carried out concerned:

- the analysis of the changes in the item during the year and a review of the increases, decreases and any write-downs made;
- the verification of correct classification and accounting treatment;
- the analysis of write-downs made to the carrying value of investments in subsidiaries and other companies;



This item was considered significant overall in the context of the audit activity in view of the amount recorded in the balance sheet and the peculiar nature of the valuation processes (equity method) and the determination of any impairment losses (cost method) associated with it, with significant effects on the income statement.

- the identification of investments, in subsidiaries and other companies, characterised by book values that may be higher than the corresponding fractions of shareholders' equity pertaining to them as at 31 December 2017;
- the verification of the correct application of the equity method for associated companies;
- obtaining, for the associate Alto Garda Power S.r.L, the reporting package prepared in accordance with International Financial Reporting Standards as at 31 December 2017;
- the analysis of the recoverability of receivables from investee companies;
- the audit of the proper accounting of dividends from equity investments in the income statement;
- the audit of the information provided in the Notes to the financial statements.

Valuation of personnel provisions

Note 7.14 "Employee benefits"

The Company shows employee benefits of EUR 1.5 million in the balance sheet as at 31 December 2017, representing 2.3% of total liabilities.

Personnel-related provisions include employee benefit plans. Prominent among these benefits are energy discounts, severance pay and additional monthly payments. The present value of obligations is based on the use of actuarial techniques that attribute the benefit deriving from the plan to the periods in which the obligation to disburse it arises and is based on actuarial assumptions that are objective and compatible with each other. Plan assets are recognised and measured at fair value. The Company has used the support of independent experts for the calculation of employee benefits.

This item was considered significant overall in the context of the audit activity in view of its amount and of the peculiarities of the valuation processes and the determination of the relevant liability recorded in the financial statements.

The main audit procedures carried out concerned:

- the assessment of the competence, capacity and objectivity of the experts appointed by the Company's Management to carry out the assessments of the employee provisions;
- the documentary reconciliation of the computation of the values estimated by the Company's appointed experts with the accounting balances;
- the verification of the accuracy and completeness of the data on the population of employees included in the plans, used for the purpose of the experts' assessment of the liability;
- the verification of the reasonableness, through the use of industry benchmarks, of the assumptions used by the experts;
- the verification of consistency of the experts assumptions;
- the critical analysis of the sensitivity test, prepared by the experts, concerning the calculation of the liability under varying key assumptions;
- the audit of the information provided in the Notes to the financial statements.



Responsibilities of the Directors and the Board of Auditors for the Annual Financial Statements

The Directors are 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, as well as the measures issued in implementation of Article 9 of Legislative Decree 38/'05, and, within the terms of the law, for that part of the internal control they consider necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or unintentional conduct or events.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the annual financial statements, for the appropriateness of the use of the going concern assumption, as well as for adequate disclosure. The Directors use the going concern assumption in preparing the annual financial statements unless they have assessed that the conditions for liquidation of the Company or discontinuation of operations exist or they have no realistic alternative to these choices.

The Board of Statutory Auditors is responsible for supervising, within the terms of the law, the process of preparing the Company's financial reports.

Responsibility of the auditing company 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 unintentional behaviours or events, and to issue an audit report that includes our opinion. Reasonable assurance is defined as a high level of assurance, which, however, does not guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement, when it exists. Misstatements may arise from fraud or errors and are considered material if they could reasonably be expected, 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.

In performing our audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgement and maintained professional scepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we have designed and performed audit procedures in response to those risks; and we have obtained sufficient appropriate audit evidence on which to base our opinion. The risk of not detecting a significant misstatement due to fraud is higher than the risk of not detecting one resulting from error, as the fraud may involve collusion, forgery, intentional omissions, misrepresentation or override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have assessed the appropriateness of the accounting policies used as well as the reasonableness of the accounting estimates made by the Directors, including the related disclosures;



- we have reached a conclusion as to the appropriateness of the Directors' use of the going concern basis of accounting and, based on the evidence obtained, whether any material uncertainty exists about events or conditions that may cast significant doubt about the Company's ability to continue as a going concern. If a material uncertainty exists, we are required to draw attention to it in the audit report on the relevant financial statement disclosures or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the evidence acquired up to the date of this report. However, future events or circumstances may result in the Company ceasing to continue as a going concern;
- we have 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 gives a true and fair view.

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

We have also provided those responsible for governance activities with a statement confirming that we have complied with the ethics and independence rules and principles applicable in the Italian legal system, and we have disclosed to them any situation that may reasonably have an effect on our independence and, where applicable, the relevant safeguards.

Of the issues communicated to those responsible for governance, we have identified those that were most relevant to the audit of the financial statements for the year under review, and thus constituted the key aspects of the audit. We have described these issues in the audit report.

Other information disclosed pursuant to Article 10 of Regulation (EU) 537/2014

On 7 March 2017, the Shareholders' Meeting of Alto Garda Servizi S.p.A. appointed us to audit the financial statements of the Company for the financial years from 31 December 2016 to 31 December 2024.

We declare that no non-audit services prohibited under Article 5, para. 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in the performance of the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is in line with that indicated in the additional report to the Board of Statutory Auditors, in its capacity as the Internal Control and Audit Committee, prepared pursuant to Article 11 of the aforementioned Regulation.



Report on other legal and regulatory provisions

Judgement pursuant to Article 14(2)(e) of DL 39/10 and Article 123-bis of Legislative Decree no. 58/98

The Directors of Alto Garda Servizi S.p.A. are responsible for the preparation of the Report on Operations and the report on corporate governance and ownership structure of Alto Garda Servizi S.p.A. as at 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures set forth in Auditing Standard (SA Italy) No. 720B in order to express an opinion on the consistency of the Report on Operations and certain specific disclosures included in the Report on Corporate Governance and Ownership Structures set forth in Article 123-bis, para. 4, Legislative Decree 58/'98, with the financial statements of Alto Garda Servizi S.p.A. as at 31 December 2017 and on their compliance with the law, as well as to issue a declaration on any significant misstatement.

In our opinion, the report on operations and certain specific information contained in the report on corporate governance and ownership structure referred to above are consistent with the financial statements of Alto Garda Servizi S.p.A. as at 31 December 2017 and have been prepared in accordance with the law.

With reference to the declaration referred to in Article 14, para. 2(e) of Legislative Decree no. 39/'10, issued on the basis of the knowledge and understanding of the company and its environment gained in the course of the audit, we have nothing to report.

Verona, 13 April 2018

BDO Italia S.p.A.

/Signature/

Carlo Boyancé Shareholder