



Acquirente Unico S.p.A.

Annual Financial Statements

2017

Share capital € 7,500,000 fully paid-in

Sole shareholder pursuant to art. 4 of Lgs Decree 79/99 Gestore dei Servizi Energetici - GSE S.p.A.

Entity with direction and coordination powers: GSE S.p.A.

Registered offices - 00197 Rome – Via Guidubaldo Del Monte, 45

Rome Registry of Companies, VAT and Tax Id Code no. 05877611003

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CONTENTS

LETTER TO THE SHAREHOLDER	5
CORPORATE STRUCTURE	8
<i>Board of Directors (2017-2019)</i>	8
<i>Board of Statutory Auditors (2017-2019)</i>	8
REPORT ON OPERATIONS	9
REGULATORY ELEMENTS AND AREAS OF REFERENCE	10
MACROECONOMIC FRAMEWORK	19
ECONOMIC AND FINANCIAL PERFORMANCE	21
<i>Summary Financial statements</i>	21
<i>Main operating figures</i>	22
<i>Reclassified Income Statement</i>	23
<i>Reclassified Balance Sheet</i>	30
ACTIVITY IN ENERGY MARKETS	32
<i>Total electricity demand</i>	32
<i>Electricity demand for the enhanced protection service</i>	32
<i>Consumption and oil price trends</i>	32
<i>Trend of the euro/dollar exchange rate</i>	34
<i>Trends in the electricity prices</i>	35
<i>Electricity supply</i>	38
<i>Unbalances</i>	39
<i>Energy supply costs</i>	40
<i>Sale of electricity to companies providing the enhanced</i>	

<i>protection service</i>	41
<i>Sale price</i>	42
<i>Safeguard Service - Electricity</i>	43
<i>Supplier of last resort - Gas and default distribution service - Gas</i>	43
ACTIVITIES IN SUPPORT OF OPERATORS AND END USERS	44
<i>Energy and Environment Consumer Help Desk</i>	44
<i>Contact Centre</i>	47
<i>Special Procedures</i>	48
<i>Energy Consumer Conciliation Service</i>	49
<i>Monitoring and Services</i>	51
<i>Integrated Information System</i>	52
<i>Retail Market Monitoring system for electricity and natural gas</i>	63
<i>Italian Central Stockholding Entity (OCSIT)</i>	64
OTHER CORPORATE ACTIVITIES	68
<i>Human Resources</i>	68
<i>Corporate Information Systems</i>	70
<i>Communication Activities</i>	81
<i>Litigation management</i>	83
<i>Tax Assessments</i>	85
<i>Activities of the Financial Reporting Manager</i>	86
<i>Activities of the Corruption Prevention and Transparency Manager</i>	87
RELATIONS BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES	89

BUSINESS OUTLOOK	93
OTHER INFORMATION	96
FINANCIAL STATEMENTS	98
BALANCE SHEET	99
<i>ASSETS</i>	99
<i>LIABILITIES</i>	100
INCOME STATEMENT	101
STATEMENT OF CASH FLOWS	103
EXPLANATORY NOTES	104
<i>STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS</i>	105
<i>ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA</i>	106
<i>BALANCE SHEET</i>	117
<i>INCOME STATEMENT</i>	142
<i>STATEMENT OF CASH FLOWS</i>	157
<i>OTHER INFORMATION</i>	159
REPORT ON 2017 FINANCIAL STATEMENTS	
<i>REPORT OF STATUTORY AUDITORS</i>	162
<i>INDEPENDENT AUDITOR'S REPORT</i>	170
<i>ATTESTATION OF THE FINANCIAL STATEMENTS PURSUANT ARTICLE</i> <i>26 OF THE BYLAWS</i>	173

LETTER TO THE SHAREHOLDER

In 2017, the electricity industry saw significant changes, against which Acquirente Unico defined its strategic guidelines taking advantage of possible opportunities for development.

The Annual Market and Competition Law of 4 August 2017 (Competition Law) established the elimination of price protections for the electricity and gas markets, setting 1 July 2019 as the deadline for all customers to move to the open market.

The Competition Law sets a finishing point for AU's original function, supplying energy for enhanced protection customers, and will determine a reduction in terms of volumes of business and therefore turnover. Already during the most recent years, purchases of energy, which for AU continue to play a central role, have seen a progressive and natural decrease as customers move to the open market.

AU is dealing with the structural change, which will affect the company, on one hand, by strengthening other company activities, and on the other, through institutional proposals aimed at taking advantage of experience and skills developed with respect for competition and in the interest of the consumer, in particular with regards to consumers who could be classified as vulnerable - those who will encounter objective barriers in their move to the open market, not entirely attributable to economic factors.

If, on one hand, the Competition Law sanctions the elimination of enhanced protection, on the other it assigns a series of activities to AU that are key to the operation of the same open market. These include, for example, the creation and management of a digital portal used to compare offers, aimed at collecting and publishing sales offers available on the market, which will constitute a transparent information tool of fundamental use to consumers. Within the context of the Integrated Information System (IIS), AU has already begun implementing the portal, which as of 1 July 2018 will be available as the first group of offers are published.

The IIS is growing rapidly - it already manages the main sector processes and is preparing to acquire new ones in order to make the market function ever more fluidly and transparently, benefiting both operators and consumers. During 2018, the gas sector switching process will be completed, in accordance with the provisions established in the European directives, an objective that was fully completed in 2016 for the electricity industry.

Additionally, the IIS provides a significant contribution to the technological shift affected the electricity industry, with the implementation of the new smart meter system. To that end, it is involved in a significant infrastructural improvement in order to manage the new 2G meters.

The Competition Law further enhances another important AU function, the Consumer Help Desk, extending its functions to all regulated sectors, specifically water and waste. Due to the widened scope of responsibilities, the name has therefore been changed to *Energy and Environment Consumer Help Desk*.

In 2017, the Conciliation Service made procedures to manage cases more fluid and efficient by implementing a new online platform, an important technological innovation that makes access to the service more user friendly for both consumers and operators.

With the elimination of the enhanced protection service, the call centre takes on a fundamental role in informing and supporting consumers in understanding the effects of the regulatory changes.

Relative to energy purchases, due to the European market coupling rules, in 2017 the time mismatch between payments and receipts became systematic. AU made use of a series of financial instruments that made it possible to flexibly and efficiently manage its liquidity requirements which rose to high levels at certain points during the year. In particular, through a factoring tender, AU sold its receivables with recourse relative to invoices from operators at extremely favourable rates, minimising costs for the end consumer.

With regards to OCSIT, the results it achieved in 2017 should be noted, as it exceeded 10 stock days, equal to over a million tonnes of petroleum products, corresponding to a third of the business plan approved by the Ministry of Economic Development (MED).

The significance of the volumes managed by OCSIT brought the MED, during the first months of 2018, to authorise the diversification of financial supply sources through the issuing of a bond loan, in line with the standards used by the most significant European storage bodies. AU is readying for this new and complex financial transaction, which will decidedly modify its company's profile, putting in order all preparatory activities, among which obtaining a credit rating.

The Competition Law, following the good results achieved so far by AU and recognised by institutions and stakeholders, establishes that all the assets and liabilities of Cassa Conguaglio GPL will be transferred to OCSIT on 1 January 2018. Already during the final months of 2017, the transfer of deliveries made by the entity has begun and AU took over in a series of activities, with an eye to improving the efficiency of Cassa procedures.

At the institutional level, during 2017 AU strengthened its role as a credible and competent entity, contributing, among other things, to the preparation of the National Energy Strategy, coordinated by the Ministry of Economic Development, which saw the participation of the major public bodies operating in the energy industry.

2017 also saw the beginning of a series of initiatives aimed at strengthening AU's international profile. A fundamental step in this process was the presentation of the IIS to the European Parliament as a highly important tool for a more efficient retail market, suggesting its adoption as a European best practice. Additionally, AU is a partner in the ASSIST project, together with another six member states. This is an initiative promoted by the European Commission, in the context of the Horizon2020 European programme, aimed at supporting vulnerable consumers to efficiently manage domestic energy consumption and, more generally, contributing to fighting energy poverty.

The notable growth seen during the past year seems destined to accelerate, as new opportunities are pursued, offered by the transformation of the system, financial challenges and regulatory changes. To face these challenges, coordination and managerial guidance will be necessary to give the company a cohesive and organic environment to create value, not just for the company. In fact, the primary objective is in line with the public nature of the Company, which makes contributions not solely associated with economic results, but increasingly focused on generating positive effects on consumers, operators and the public administration.

In the context of transformation, the consistency of its mission is the thread that connects AU's past and future activities and that guides the development process of a growing company that is a protagonist, anticipating and sometimes supporting the changes in the industry.

Chairman and Chief Executive Officer

Andrea Péruzy

CORPORATE STRUCTURE

Board of Directors (2017-2019)

Chairman and Chief Executive Officer	Andrea Péruzy
Directors	Liliana Fracassi
	Vinicio Mosè Vigilante

Board of Statutory Auditors (2017-2019)

Chairman	Alessandra D'Onofrio
Statutory Auditors	Pierluigi Carabelli
	Roberto Nicolò
Alternate Statutory Auditors	Corrado Checcherini
	Alice Sette

REPORT ON OPERATIONS

MAIN REGULATORY ELEMENTS AND AREAS OF REFERENCE

Acquirente Unico S.p.A. (hereafter also “Acquirente Unico” or “AU”), a company limited by shares wholly owned by Gestore dei Servizi Energetici - GSE S.p.A. (hereafter “GSE”), was established pursuant to Italian Legislative Decree 79 of 16 March 1999, in order to guarantee the supply of electricity to eligible customers.

From 1 July 2007, with the completion of the liberalization of the retail sale of electricity, as a result of Italian law no. 125 of 3 August 2007, for conversion with amendments to Decree Law no. 73 of 18 June 2007 (hereinafter “Law no. 125/2007”), all end-users of electricity, and in particular also civilian or domestic users, have the right to freely choose their electricity supplier. In light of this innovation, Italian law no. 125/07 introduced enhanced protection and safeguards in electricity sales services.

AU’s mission was subsequently extended to include additional activities and functions assigned to it through legislative provisions or sector regulations.

Enhanced protection service

The enhanced protection service targets residential customers and businesses with fewer than 50 employees with annual revenue not exceeding € 10 million (hereinafter the “small customers” or “protected customers”) who decide not to go onto the open market. The service is provided by the enhanced protection provider, which may be a specific sales company, in geographical areas in which the distribution company supplies at least 100,000 end customers, or the same distribution company in other cases. In the context of this service, the supply function is provided by Acquirente Unico.

Acquirente Unico, in accordance with the directives of the Regulation Authority for Energy, Networks and Environment¹, (hereafter, “Authority” or “ARERA”), transfers to the operators the electricity to be supplied to the protected customers, ensuring the balance of its accounts, according to the provisions of Article 4, paragraph 6 of the aforementioned Legislative Decree no. 79/99.

Legislative Decree 93 of 1 June 2011 (hereafter LD 93/11) subsequently confirmed the enhanced protection service for small customers, providing for possible adjustments over time, in response to the monitoring of developments in the retail market and the existence of effective competition.

¹ Law 205 of 27 December 2017 assigned the Authority for Electricity, Gas and Water (AEEGSI) the responsibility for regulating the waste sector as well, changing its name to the Regulation Authority for Energy, Networks and Environment (ARERA).

The enhanced protection service underwent significant organic change.

In particular, Law 124 of 4 August 2017 (hereafter “Annual Market and Competition Law”) established, among other things, the abrogation of paragraph 2 of article 35 of Legislative Decree 93 of 1 June 2011, effective as of 1 July 2019. With this abrogation, regarding the provision that confirms the greater protection service pursuant to Law 125/07, converting with amendments Decree Law 73/07, the legislators intended to remove price protection for civil end customers and companies connected in low voltage, with less than 50 employees and annual revenue not exceeding € 10 million who do not select a supplier on the open market (in the same manner as established for the gas sector), effective as of 1 July 2019. In this context, within six months of the date the law takes effect, the Authority must send the Ministry of Economic Development (hereafter, also “MED”) a report on monitoring of retail markets to verify that the objectives indicated in the law have been achieved (including the portal and the IIS). On the basis of the information contained in the Authority’s report, having heard from the same Authority and the Competition and Market Guarantor, the MED with a decree to be adopted within sixty days of report transmission, after hearing from the relevant parliamentary commissions, shall report on the achievement of the objectives. If one of the objectives is not achieved, the Ministry of Economic Development and the Authority shall adopt the necessary provisions to achieve it within the subsequent three months and each relative to their own assigned responsibilities. The same ministerial decree defines the measures necessary to guarantee elimination of the transitional price rules and the knowledgeable entrance of end customers on the market, using mechanisms which ensure competition and a plurality of suppliers and offers on the open market.

Already in 2016, the Authority had begun a process to reform the enhanced protection service that involved changing the market mechanisms used to protect prices for domestic and non-domestic customers in the energy sector, including among other things a revision of the disbursement conditions for the enhanced protection service (so-called reformed enhanced protection service), effective as of 1 January 2017 (see most recently Resolution 633/2016/R/eel).

Similar Protection

So-called “Similar Protection” was established (Resolution 369/2016/R/eel) as a new protection tool accompanying the enhanced protection service. Essentially it is a monitored trading environment in

which the end customer is able to operate on the open market, choosing their own vendor from a plurality of certified operators offering supply contract, in which the variable parameter within the economic conditions is the one-off bonus to be paid to customers .

As part of this institution, Acquirente Unico was appointed as the Protection Administrator, with the task of preparing the Operating Rules (approved by the Authority with Resolution 541/2016/R/eel), identifying suppliers certified for Similar Protection and performing other management aspects relative to contact between customers and suppliers, including the preparation of the Central Similar Protection Site, where users of an active electricity supply can select a supplier to make use of the new service.

The same Resolution also established that the Central Similar Protection Site will interact with the IIS, which carries out control and accounting functions for reservations and switching carried out under Similar Protection.

For the purposes of participation in Similar Protection, the Central Site guarantees contact between end customers and certified suppliers as of 1 January 2017 and until the enhanced protection service is overcome, in any case no later than 30 January 2018.

Safeguard Service - Electricity Sector

The Safeguard Service is intended for end users not entitled to enhanced protection in the event that they are without a seller on the open market or did not select one.

The Authority, in implementing the decree of the Italian Ministry for Economic Development of 23 November 2007, has assigned to AU the task of organizing and carrying out the contractual procedures for the selection of the companies that will provide the service, in accordance with the provisions of the Authority.

Supplies of last resort and default distribution service - Gas Sector

Subject to the changes introduced by Legislative Decree no. 93/11, the service provision of last resort for vulnerable customers who are temporarily without a gas supplier, is provided to customers who are entitled to the protection service (domestic customers - including condominiums with consumption of no more than 200,000 standard cubic meters per year, utilities related to public service activities, other customers with consumption of no more than 50,000 standard cubic meters per year) by operators selected on the basis of competitive procedures run by Acquirente Unico.

The Authority also assigned to Acquirente Unico the task to manage the tendering procedures for the identification of the default natural gas distribution service, aimed at ensuring the balance of the distribution network, in relation to the take outs of natural gas made directly by the end customer holder of the delivery point, without a supplier, to whom the prerequisites for the activation of the supplier of last resort are not applicable, or when in any case it is otherwise impossible the activation.

Energy and Environment Consumer Help Desk

Law no. 99/09 provides that the Authority can rely on AU to strengthen its activities of protection of the energy consumers, also with reference to the functions referred to in Article 2, paragraph 12, letters l) and m) of the Italian law dated November 14, 1995 no. 481.

Legislative Decree no. 93/11, implementing Directives 2009/72/EC and 2009/73/EC, provided, among other things, that the Authority will ensure the efficient handling of complaints and arbitration procedures for end users, against sellers and distributors of natural gas and electricity, using Acquirente Unico.

In compliance with these legislative provisions, the Authority entrusted AU with managing the Energy Consumer Help Desk through availment, already as of 1 December 2009. This management was governed through three-year Operating Projects approved by the Authority, jointly with cost recognition and coverage methods.

Legislative Decree 130/2015, implementing Directive 2013/11/EU in our national legislation, established that disputes between consumers and companies can be resolved out of court, with lower costs and more quickly. This provision began a large process of reforming the protective system during 2016.

Specifically, implementing said legislative provision, through Resolution 209/2016/E/com, containing “Adoption of the integrated text on out of court settlement procedures for disputes between customers or end users and operators or managers of sectors governed by the Authority for Electricity, Gas and Water - Integrated Arbitration Text (TICO)”, the Authority established, as of 1 January 2017, an obligation to attempt resolution through the Arbitration Service, or through the entities registered on the specific list kept by the Authority, or which have stipulated a specific protocol with it, as a condition for proceeding to legal action.

Taking into account the provisions already established by TICO, the Authority changed the terms of use for Acquirente Unico in relation to activities associated with the efficient management of complaints and disputes, pursuant to articles 7, paragraph 6 and 44, paragraph 4 of Legislative Decree

93/11, for the electricity and gas sectors, operational as of 1 January 2017 (Resolution 383/2016/E/com).

In particular, on the basis of the above cited reform, Help Desk activities performed on behalf of the Authority include:

- managing the Energy Customer Arbitration Service relative to the obligatory settlement attempt in order to proceed to ordinary legal action (operation in an initial experimental phase from 2013 until 2016);
- managing special procedures to resolve recurring disputes deriving from specific cases involving information already codified in specific databases which Acquirente Unico has direct access to;
- managing special informational procedures, which allow affected end customers to obtain specific information not available or easily accessed through the operator;
- collecting written notifications and requests for information coming from customers or end users;
- the call centre, an immediately accessible channel that allows a customer or end user to obtain information about the method used to access the services regulated by the Authority, about their rights, liberalisation of the electricity and natural gas markets, arbitration entities that can be used for the obligatory settlement attempt pursuant to TICO, special procedures and tools used to confirm offers;
- the help desk, which provides consulting to certified branches of consumer associations and trade associations on regulation issues in the sectors the Authority is responsible for, also making use of assistance from the call centre;
- careful monitoring of the results of all activities carried out through availment, in order to allow the Authority to implement any possible follow-up.

Consequently, the Authority approved the proposal for the 2017-2019 Single Project prepared by Acquirente Unico (Resolution 727/2016/E/COM - Reformed Authority Protective System Project - STAR), to perform activities that are part of the reformed system of protections relative to complaints and out of court resolution of disputes with end customers, through availment of Acquirente Unico, extending the validity of the Availment Regulations until 2019 (pursuant to Resolution 597/2015/E/com).

Following the provisions of the Annual Market and Competition Law regarding the extension of availment of Acquirente Unico to all the sectors regulated by the Authority for publication and

dissemination of information about the full opening of the market and the conditions for providing services, as well as effective processing of complaints and arbitration procedures, upon the conclusion of a procedure begun for the said purpose, the Authority confirmed availment of Acquirente Unico also for the water sector and approved the Project to extend the activities of the Help Desk to the water sector, with reference to the Contact Centre service, complaints management, online arbitration service and special procedures envisaged for users of the integrated water service (see Resolution 900/2017/E/idr).

The Authority then changed the name from “Energy Consumer Help Desk” to “Energy and Environment Consumer Help Desk” (Resolution 920/2017/A).

Finally, we note that the Help Desk provides auxiliary assistance related to the decision making procedure for dispute resolution between customers or end users and operators or managers which were not resolved during the settlement process (“third level” protection, in which dispute resolution is achieved through an administrative decision made by the Authority - Resolution 639/2017/E/com of 21 September 2017).

Integrated Information System

Italian Decree Law of 08 July 2010, no. 105 converted into Law on 13 August 2010, no. 129, (hereinafter "Law no. 129/10") established within Acquirente Unico the Integrated Information System (IIS) for the management of information flows related to the electricity and gas markets, based on a database of collection points and end user identification data .

In implementing this law, the Authority established:

- the general criteria for the operation of the IIS;
- the fee for covering costs;
- the principle of the separation of accounts of foreign economic and financial activities related to managing IIS with respect to the other activities of the Company;
- the initial information flows to manage.

The functionalities of the IIS were subsequently extended to the management of information related to the consumption of electricity and gas by end users and, therefore, data on related measures of consumption, by the Italian Decree Law of 24 January 2012, no. 1, converted into Law 24 March 2012, no. 27, in line with what is reported by Antitrust in the matter.

In addition, Legislative Decree n. 102 of 2014 on energy efficiency matters has given the Authority to option to rely on, among other things, the IIS as part of the tasks conferred by the above-mentioned Decree regarding metering and billing of energy consumption.

Most recently, the Annual Competition and Market Law arranged for the creation and management by the IIS manager of an IT portal to collect and publish, in open data mode, the current offers on the retail electricity and gas markets, with particular reference to domestic use, companies connected in low voltage and companies with annual consumption not exceeding 200,000 standard cubic meters, based on the provisions established by the Authority.

During 2017, the Authority issued a series of provisions regarding the IIS, regarding the electricity and natural gas sectors, also implementing the referenced legislative framework. Specifically, the Authority established:

- the procedures for the massive information update held in the RCU and revised the update procedures for this data to allow for proper application of the “TD” fee structure to delivery points (Resolution 130/2017/R/eel);
- the methods and schedule for making 2G measurement data available to IIS and transport users in accordance with the functions and service levels defined under Resolution 87/2016/R/eel (Resolution 248/2017/R/eel).
- that the Integrated Information System would be assigned the role of the single interface with distribution companies to make periodic measurement data available, as well as adjustments to the same, in addition to information exchanged at times of transfer and switching; more specifically, it was established that the IIS acquires data from the distribution companies, certifies it to protect involved operators and the reliability of processes, and makes it available to electricity sector transport users (Resolution 594/2017/R/eel);
- provisions regarding the application of hourly settlement treatments for entry and delivery points with 2G smart metering systems (Resolution 700/2017/R/EEL);
- provisions for starting the trial regarding making IIS measurement data available with reference to the gas sector (Resolution 434/2017/R/gas);
- provisions regarding extending and updating the data contained in the IIS RCU with reference to the gas sector, aimed at simplifying information exchange for the termination of contracts, making data available to initial supplies and the activating the protection and default services managed during transfer and switching processes within the IIS (Resolution 850/2017/R/gas in December 2017).

Additionally, the Authority defined the regulations governing the indemnity system uniformly for the electricity and natural gas sectors, through full implementation of the relative processes within the IIS, approving the “Integrated text for the indemnity system applying to end customers in arrears in the electricity and natural gas sectors” (IISIND). The objective area of application for the electricity sector remains unchanged, meaning customers connected in low voltage, while establishing for the natural gas sector applicability to domestic end customers, condominiums for domestic use with annual consumption not exceeding 200,000 standard cubic meters and other uses with annual consumption not exceeding 50,000 standard cubic meters (Resolution 593/2017/R/com).

Retail Market Monitoring

As of 1 January 2012, the retail monitoring system has commenced its operations. The system has been introduced by the Authority in order to verify the operating conditions of the sale of electricity and gas to households and small customers, the degree of openness, competitiveness and market transparency, and the level of participation and satisfaction of end users.

The Integrated Retail Monitoring Text (TIMR), approved by the Authority for this purpose, has provided for, among other things, the availability of AU, during the collection of data provided by subjects required to participate in the monitoring. Specifically, the activities carried out by AU in this area concern the operational phase of extracting basic data, supplied by the responsible parties, as well as support to the monitoring of the retail market. The method for covering the costs incurred by AU is regulated by the Authority itself.

Italian Central Stockholding Entity - OCSIT

In order to implement the EU Directive 2009/119/EC, which establishes the obligation for Member States to hold a minimum quantity of stocks of crude oil and/or petroleum products, the Italian government issued Legislative Decree no. 249 of 31 December 2012, published in Official Gazette no. 22 of 26 January 2013 and in force since 10 February 2013.

The measure, among other things, attributed the functions and activities of Italian Central Stockholding Entity (OCSIT) to Acquirente Unico, specifically providing that OCSIT is to acquire, hold, sell, and transport “specific” stocks (finished products referred to in a list defined by the regulations) and can also organize and provide a service of storage and transport of emergency and commercial oil stocks.

As determined by the above-mentioned decree, the costs and expenses incurred by the Company to carry out OCSIT activities are covered by the contribution determined by the Italian Ministry of

Economic Development, in consultation with the Ministry of Economy and Finance, and payable by the parties responsible, as identified annually by the Ministry of Economic Development, on the basis of what was released for consumption in the last year of the energy products listed in Annex C, Section 3.1, paragraph 1 of Regulation (EC) No. 1099/2008.

OCSIT is subject to the supervision of the Italian Ministry of Economic Development, which shall determine the guidelines for the exercise of its functions. With a deed of 31 January 2014, the Ministry of Economic Development adopted compliance guidelines for the operational start-up of OCSIT, also on the basis of the business plan it transmitted to the Ministry. With a Decree on 20 February 2017, the Ministry of Economic Development established the start of the stock year 2017/2018, from 1 April 2017 to the date the next stock year begins. Therefore, considering this stock year as well, the total requirement for holding of specific stocks for OCSTI is equal to ten days of stock.

MACROECONOMIC FRAMEWORK

International outlook

In 2017, global economic activity increased by more than it did the previous year, in line with forecasts. Performance during the last two years is due in good part to the economies of developed countries. Based on Bank of Italy analysis² (of IMF data), economic growth was solid in both developed and emerging economies, but was not accompanied by a recovery in inflation, which is still weak. According to the latest OECD estimates, global gross domestic product increased by 3.6 % on average in 2017, while growth in OECD countries was approximately 2.4%³.

In emerging economies, the recovery of the economic cycle continued throughout the year. In China, annual GDP growth was slightly higher (6.8%) than the previous year (6.7%), with growth exceeding expectations in the first two quarters. In India, growth was slightly lower than the previous year (6.7%), while economic activity in Brazil showed signs of recovery (0.7%), accelerating during the summer months. Russia also saw GDP growth (1.9%), strengthening future prospects.

The gross domestic product in developed economies has generally improved. In the United States, the economic growth of 2.2% was supported by consumption and investments, while in the United Kingdom, it was lower than the previous year (1.5%), in part due to weak consumption.

In the Eurozone, growth continued at a strong pace (2.4%), due to the push coming from internal demand during the first half and foreign demand during the second, with favourable short-term growth prospects. Growth of international sales flows improved significantly (3.5%) compared to the previous year (1.9%), due to the trend of imports in the Eurozone and the emerging Asian countries. In 2017, inflation, measured on the basis of the harmonised consumer price index, was positive (1.5%)⁴, but the base component remained weak, also because of still moderate wage growth in various countries. Financial market conditions improved, due to premiums on sovereign risk, the strengthening of growth and the market's positive reaction to the remodulation of the purchasing program announced by the ECB.

² Bank of Italy, Economic Bulletin no. 1, January 2018

³ OECD, Economic Outlook, n. 102, November 2017

⁴ Bank of Italy, Economic Bulletin, no. 1 January 2018, pg. 10

Domestic outlook

In 2017, inflation in Italy saw a positive change (1.3%⁵, harmonised consumer price index) after the slight decrease in 2016.

For the year 2017, Italy's estimated GDP growth (adjusted for calendar effects) is equal to 1.5%⁶. This positive trend reflects the contributions of both internal demand, stimulated by investments in instrumental goods and foreign demand.

In fact, exports saw a positive trend, with significant improvement during the summer months, due to the increase of exports of goods to EU markets outside of the Eurozone and towards non-EU countries.

Industrial production as a whole continued to grow in 2017, with confidence indicators for companies at their highest levels since 2007. All the major sectors contributed to this trend.

Household consumption continued to increase over the course of the year. An increase in available income contributed to this trend, above all during the summer months, which led to an increase in purchases of both goods and services and stabilisation of the propensity to save. The consumer confidence index saw a decisive improvement over the course of the year.

The unemployment rate was 10.8%, with an annual downward trend of -1% (seasonally adjusted). The data on youth employment recorded in December was an improvement over the previous year (annual trend -6.9%). For young people between 15 and 24 years of age, the unemployment rate was 32.2%⁷.

Finally, based on Bank of Italy projections, GDP growth of around 1.4% is forecast for 2018 and around 1.2% during the 2019-2020 period.

⁵ ISTAT, Consumer Prices, 16 January 2018

⁶ Bank of Italy, Economic Bulletin, January 2018, pg. 17

⁷ ISTAT, Employed and Unemployed, provisional data, 31 January 2018

ECONOMIC AND FINANCIAL PERFORMANCE

Summary Financial statements

The income statement and balance sheet data for the 2017 financial year are shown in summary in the schedules set out in the following pages obtained by reclassifying the statutory accounting statements prepared in accordance with the Italian Civil Code.

In addition to the reclassified schedules, detailed analytical data is presented concerning:

- operating costs, separately for the six macro-areas that comprise AU activities;
- the trend in operating costs;
- the result of financial management.

The main operating highlights are also summarized in an overall synthesis, as shown in the Table in the following page.

Main operating figures

For the purposes of offering a brief presentation of the global operating trend of Acquirente Unico in 2017, Table 1 shows the main economic and financial data.

Table 1: Summary of the main operating data (€ thousand)

	2017	2016	Changes	Changes
	(EUR thousand)		(EUR thousand)	%
Revenues from the sale of electricity	3,755,018	3,549,682	205,336	5.78
Profit	248	142	106	74.65
Investments in specific stocks (OCSIT) - value at end of year	473,565	296,592	176,973	59.67
Other Investments (tangible and intangible assets) - value at end of year	7,322	4,661	2,661	57.09
Shareholders' equity	8,864	8,751	113	1.29

Source: Internal processing, Acquirente Unico.

Reclassified Income Statement

Table 2: 2017 Reclassified Income Statement (€ thousand)

€ thousand

	2017	2016	Changes
REVENUES			
REVENUES FROM ENERGY SALES TO ENHANCED PROTECTION OPERATORS	3,755,018	3,549,682	205,336
OTHER ENERGY RELATED REVENUES	38,512	26,853	11,659
REVENUES COVERING HELP DESK COSTS	5,333	7,983	(2,650)
REVENUES COVERING IIS COSTS	8,034	6,727	1,307
REVENUES COVERING RETAIL MONITORING COSTS	194	244	(50)
REVENUES COVERING CONCILIATION SERVICE COSTS	2,512	762	1,750
REVENUES COVERING OCSIT COSTS	16,362	10,063	6,299
OTHER REVENUES AND INCOME	727	724	3
a) Total operating revenue	3,826,692	3,603,038	223,654
COSTS			
ENERGY PURCHASES	3,167,443	2,761,471	405,972
PURCHASES OF ENERGY-RELATED SERVICES	617,792	807,201	(189,409)
Total energy costs	3,785,235	3,568,672	216,563
OTHER PURCHASES OF CONSUMABLES	27	22	5
PERSONNEL COSTS	13,770	12,899	871
SERVICES COSTS	8,313	8,447	(134)
- Services by the parent company	1,361	1,667	(306)
- Other services (accessory storage costs)	6,952	6,780	172
LEASES	15,823	9,793	6,030
- Fees for oil product storage services	14,105	8,217	5,888
- Other	1,718	1,576	142
SUNDRY COSTS	248	505	(257)
b) Total costs (not including amortisation/depreciation)	3,823,416	3,600,338	223,078
c) Gross operating margin (a-b)	3,276	2,700	576
d) Amortisation, depreciation and write-downs	2,971	2,360	611
Total Operating Costs	3,826,387	3,602,698	223,689
e) Operating income (c-d)	305	340	(35)
NET FINANCIAL INCOME/(EXPENSES)	68	(19)	87
BEFORE TAXES PROFIT	373	321	52
Income taxes	125	179	(54)
- Current taxes	259	315	(56)
- Taxes relative to previous years	(27)	(84)	57
- Deferred tax liabilities and assets	(107)	(52)	(55)
PROFIT FOR THE YEAR	248	142	106

Source: Internal processing, Acquirente Unico.

Revenue

Total operating revenue (Table 2), equal to € 3,826,692 thousand, was generated in particular by the selling energy to companies operating the Enhanced Protection Service (€ 3,755,018 thousand). Income from energy sales, in addition to covering the cost of supplying electricity and related services (e.g. (dispatching etc.), include the fee for energy operation costs, in the adjusted amount quantified by adopting the rate of return on capital before taxes, according to the methodologies consistently applied by ARERA (€ 8,294 thousand).

Total operating revenues also include other energy related income (unbalancing fees, etc.), amounting to € 38,512 thousand, income to cover the operating cost of activities carried out under the availing procedure and those related to IIS and OCSIT, and finally revenue and other income.

As a whole, operating revenues increased by € 223,654 thousand compared to the previous year. The increase was due to revenues from selling electricity to enhanced protection service operators (€ + 205,336 thousand) as a direct consequence of the increase in the cost of electricity supply, since electricity purchase and sales activity management occurs within an balanced economic regulatory regime.

Operating costs

Total operating costs, gross of amortisation/depreciation and write-downs, totalled € 3,826,387 thousand, as can be seen in the reclassified income statement (Table 2), of which € 3,785,235 thousand for electricity purchases and sales (including services connected to electricity), € 26,451 thousand for total operating costs and € 14,701 thousand for costs to manage stocks of oil products (these latter, more specifically, indicating the sum of fees for storage services and accessory charges, equal to € 596 thousand, including under the sub-item *other services*).

Energy purchase costs refer to € 3,167,443 thousand to purchase electricity and € 617,792 thousand to acquire energy related services (dispatching and other). This item also shows an overall increase of € 216,563 thousand compared to the previous year.

Because of the cost dynamics of electricity purchases and related services, the increase of € 216,563 thousand, shown in Tables 3 and 4 below, is due, on the one hand, to the combined effect of the reduction in transactions of physical quantities (-3,194,900 MWh, equal to -5.53% over the previous year) and, on the other, to the increase in the average unit cost of purchase, including services (+7.58 €/ MWh, corresponding to a change of 12.28 % over 2016).

Table 3. Costs for supplying Electricity (€ thousand)

	2017	2016	Change	Change %
Costs for supplying energy	3,785,235	3,568,672	216,563	6.07%

Source: Internal processing, Acquirente Unico.

Table 4. Change in benchmark purchase costs

	2017	2016	Change	Change %
Quantity in MWh	54,606,800	57,801,700	(3,194,900)	-5.53%
Unit cost (€/MWh)	69.32	61.74	7.58	12.28%

Source: Internal processing, Acquirente Unico.

Operating costs to manage stocks of petroleum products increased by € 6,159 thousand compared to the previous year, in relation to the increase in days of stock during the year (four days of stock).

Operating costs totalling €26,451 thousand in 2017 are related to administration of the structure in the different areas in which AU operates.

The schedules shown below, appropriately processed and highlighted in Tables 5 and 6, indicate respectively:

- total operating costs by macro-expense;
- a breakdown of operating costs based on a criteria of destination, that is specifically indicating the respective area of activity, in both cases comparing the 2017 figures with those of the previous year.

Table 5: Operating costs analysed by macro-expense

	2017	2016	Changes 2017 vs. 2016	Changes % 2017 vs. 2016
Raw materials, supplies, consumables, and goods – not energy	27	22	5	22.7%
For services, not including energy services and OCSIT incidental	7,717	8,122	(405)	(5.0%)
For use of third-party assets, not including fees for stock storage	1,718	1,576	142	9.0%
For personnel	13,770	12,899	871	6.8%
Amortisation/depreciation and write-downs	2,971	2,360	611	25.9%
Other operating expense - exclusive of passive energy contingencies	248	505	(257)	(50.9%)
Total	26,451	25,484	967	3.8%

Source: Internal processing, Acquirente Unico.

Total operating costs (€ 26,451 thousand) increased by € 967 thousand compared to 2016. The item with the most significant growth was personnel expense (€ +871 thousand), essentially due to wage trends.

Table 6: Operating costs by area of activity (€ thousand)

OPERATING COSTS	2017	2016	Changes	Changes %
Energy Area	8,457	8,207	250	3.0%
Help Desk (Contact Centre and Special Procedures)	5,395	7,991	(2,596)	(32.5%)
Conciliation Service	2,543	762	1,781	234%
Integrated Information System - IIS	8,169	6,754	1,415	21%
Retail monitoring	202	244	(42)	-17%
Italian Central Stockholding Entity - OCSIT	1,685	1,526	159	10%
Total	26,451	25,484	967	3.8%

Source: Internal processing, Acquirente Unico.

In terms of the breakdown of operating costs by area of activity, the total amount can be attributed to management in the Energy Area (€ 8,457 thousand), services provided by the Help Desk (€ 5,395 thousand) and the Conciliation Service (€ 2,543 thousand), implementation and management of the Integrated Information System (€ 8,169 thousand), Retail Monitoring activities for € 202 thousand and, finally, operating management for the OCSIT - Central Stockholding Entity, for € 1,685 thousand.

The trend by operating area shows that overall growth can mainly be traced to development of IIS activities (€ +1,415 thousand) and the Conciliation Service (€ +1,781 thousand), and was partially contained by a decrease in costs recorded by the Help Desk.

Finally, again as part of the operating costs, **costs to manage stocks of petroleum products** relative to OCSTI are recognised (€ 14,701 thousand); these charges consist of the cost of petroleum product storage service fees (€ 14,105 thousand) and from accessory storage fees (€ 596 thousand), included under the subitem "other services".

Finally, the schedule below shows the trend of total operating costs during 2017 and 2016.

Table 7: Trend of total operating costs in the 2017-2016 period

€ thousand	2017	2016	Changes 2017 vs. 2016	Changes %2017 vs. 2016
Operating expenses for Electricity	3,785,235	3,568,672	216,563	6.1%
Operating expenses to manage petroleum product stock	14,701	8,542	6,159	72.1%
Operating costs	26,451	25,484	967	3.8%
Total	3,826,387	3,602,698	223,689	6.2%

Source: Internal processing, Acquirente Unico.

The aggregate of total operating costs equalling € 3,826,387 thousand is a +6.2% increase (€ +223,689 thousand) over 2016, essentially due to the increase in electricity supply costs.

As regards methods of covering operating costs, the fees related to the **Energy Area**, net of other income pertaining to the same area, are covered by the adjusted remuneration for the year 2017, calculated according to the algorithms consistently adopted by ARERA. The excess between the amount of the consideration and the amount of the net operating expenses to be covered contributes to the pre-tax return on invested capital.

The following is noted regarding the costs incurred by AU in 2017 for operating the other business areas that are part of the Company:

- the costs of the activities granted by the Authority (Help Desk and Conciliation Service, and Retail Market Monitoring) are covered by payments made by the Energy and Environmental Services Fund (hereafter also “CSEA”);
- the costs of the Integrated Information System are covered through a monthly fee charged to operators of the enhanced protection electricity service, to the companies serving the open energy market and to gas sector operators;
- finally, the cost of OCSIT operations is met by the contribution charged to the specifically concerned petroleum operators.

Operating income

The **Gross Operating Margin** was positive, amounting to € 3,276 thousand, compared to the previous year's amount of € 2,700 thousand.

With amortisation, depreciation and write-downs (€ 2,971 thousand) deducted, an **Operating Income** of € 305 thousand was achieved, slightly down compared to the previous year's figure.

Net Financial income/(expenses)

Net financial income/(expenses) and the reasons for its performance are shown in the table below.

Table 8: Net financial income/(expenses): 2017-2016 comparison

€ thousand			
	2017	2016	changes
Interest income on bank current accounts	9	8	1
Interest and penalties for late payment from operators	244	225	19
Other financial income	5,503	2,532	2,971
Gross financial income	5,756	2,765	2,991
	2017	2016	changes
Financial expense on medium-term loans	3,679	2,516	1,163
Interest expense on short-term borrowings	1,830	25	1,805
Other financial charges	179	243	(64)
Gross financial expenses	5,688	2,784	2,904
Net financial income/(expenses)	68	(19)	87

Source: Internal processing, Acquirente Unico.

In 2017, net financial income amounted to € 68 thousand, against net financial expense of € 19 thousand recorded the previous year.

It should be noted that charges on loans granted to OCSIT, in particular relative to the medium-term loan intended for supplies of oil product stocks, as well as interest expense on short-term debt, due to financial payables intended to cover the requirement originating from new settlement methods applied on the Day Ahead Market, have a contra entry under the item Other financial income.

The change in net income, equal to € +87 thousand, is the result of the increase in gross financial income (€ +2,991 thousand), more than proportional to the increase in gross financial expense (€ +2,904 thousand).

Profit before taxes

Profit before taxes is equal to € 373 thousand, compared to € 321 thousand in 2016. The result follows the application of a rate of return before taxes of 4.31 % on the net capital of AU, pursuant to the calculation methodology constantly adopted by ARERA.

Profit for the year

Profit for 2017 equalled € 248 thousand, compared to € 142 thousand in 2016.

Reclassified Balance Sheet

The reclassified Balance Sheet as of 31 December 2017, compared with that the previous year is detailed in Table 9:

Table 9: Summary of the financial position, 2017 (€ thousands)

€ thousand	Dec. 31, 2017	Dec. 31, 2016	Changes
NET FIXED ASSETS			
<i>Intangible Assets</i>	3,943	3,693	250
<i>Tangible Assets</i>	476,944	297,560	179,384
<i>Financial fixed assets</i>	805	581	224
	481,692	301,834	179,858
NET WORKING CAPITAL			
- <i>Receivables due from customers</i>	766,057	752,636	13,421
- <i>Receivables due from parent company</i>	30	13,179	(13,149)
- <i>Receivables due from subsidiaries of parent companies</i>	2	-	2
- <i>Receivables due from Energy and Environmental Services Fund</i>	949	199	750
- <i>other assets</i>	1,708	1,742	(34)
- <i>Payables due to suppliers</i>	(82,413)	(258,402)	175,989
- <i>Payables due to parent company</i>	(780)	(366)	(414)
- <i>Payables due to subsidiaries of parent companies</i>	(164,601)	(448,619)	284,018
- <i>Payables due to Energy and Environmental Services Fund</i>	(42)	(42)	-
- <i>other liabilities</i>	(11,601)	(11,435)	(166)
Total	509,309	48,892	460,417
INVESTED CAPITAL	991,001	350,726	640,275
PROVISIONS	(2,192)	(2,032)	(160)
INVESTED CAPITAL NET OF PROVISIONS	988,809	348,694	640,115
COVERAGE			
SHAREHOLDERS' EQUITY	8,864	8,751	113
<i>Share Capital</i>	7,500	7,500	-
<i>Legal reserve</i>	1,116	1,109	7
- <i>Profit for the year</i>	248	142	106
NET FINANCIAL DEBT (CASH)			
<i>Net debt to banks in the short term</i>	166,652	43,096	123,556
- <i>net short term payables due to Energy and Environmental Services Fund (CSEA)</i>	140,000	-	140,000
- <i>short-term payables due to parent company</i>	200,003	-	200,003
- <i>net debt to banks in the medium and long term</i>	473,295	296,850	176,445
- <i>cash and cash equivalents</i>	(5)	(3)	(2)
Total	979,945	339,943	640,002
TOTAL	988,809	348,694	640,115

Source: Internal processing, Acquirente Unico.

Invested Capital

Total fixed assets (€ 481,692 thousand as of 31 December 2017) show a significant increase (€ 179,858 thousand) over the previous year, mainly due to OCSIT's investments in oil stocks. In fact, the increase is due to the investment to procure an additional four days of stock, during 2017.

Net working capital of € 509,309 thousand, is mainly formed by receivables due from customers (enhanced protection service operators and, to a much lesser extent, other counterparts) amounting to € 766,057 thousand and by payables due to suppliers, for € 82,413 thousand, as well as relative to subsidiaries of the parent company for € 164,601 thousand.

Invested Capital (including net fixed assets) amounts to € 991,001 thousand, which falls to € 988,809 thousand, net of provisions.

Sources

Shareholders' Equity totals € 8,864 thousand, including a Net Profit of € 248 thousand for the year. The increase over the previous year (€ 113 thousand) is attributable to the results for the year and the distribution of part of the profit from the previous year over the course of the year.

The difference between Invested Capital (net of provisions) and Shareholders' Equity resulting primarily from net financial debt (including the amount of funding aimed at supplying stock to OCSIT, equal to € 473,295 thousand), amounted to € 979,945 thousand at the end of 2017.

The increase in financial debt is also due to the change in the payment schedules for energy purchases on the spot market (MGP) and, consequently, AU's need to make use of loans to cover these purchases, given the unchanged settlement schedule for receipt of amounts due.

ACTIVITY IN ENERGY MARKETS

Total electricity demand

In 2017, electricity demand totalled 320.4 TWh ⁽⁸⁾, showing an increase of 2% compared to 2016 (a year in which, instead, a decrease of 0.8% over 2015 was recorded). Monthly changes with respect to the previous year were all positive, with a maximum of 9.8% in August, with the exception of February, April and September, in which changes were negative (ranging from -1.9% in September to -2.8% in April).

Electricity demand for the enhanced protection service

Energy demand for the enhanced protection service in 2017 totalled 54.6 TWh accounting for 17.05% of total demand (18.6% in 2016).

Consumption and oil price trends

Global demand for oil in 2017 ⁽⁹⁾ reached 97.7 million b/d, an increase of 1.6 million b/d (+1.6%) with respect to 2016. A large part of this increase was driven by non-OECD countries, in particular China (+600 thousand b/d), which during the last five years has seen its oil demand grow by 38%. Demand in Europe continued to grow for the third consecutive year, surpassing 14 million b/d, equal to 30% of the OECD total. At the global level, oil continued to be the largest energy source, accounting for an estimated 32%, followed by coal at 27% and gas at 22%. In the transportation sector (goods and people), the weight of petroleum products is currently around 92%. Based on the most recent International Energy Agency estimates, again at the global level, the figure should oscillate between 83% and 88% in 2040, and between 79% and 85% in Europe.

The price of oil in 2017 averaged \$ 54.2/barrel, up by around \$ 11 (+25%) with respect to 2016. The keeping of the OPEC Plus agreement was important in the recovery, which was extended for all of 2018 on last 30 November. During the year, the dated Brent ranged between US\$ 50-60/barrel, with the exception of over US\$ 64/barrel towards the end of the year. The most widely accepted estimates

⁸ Source: Terna SpA - Provisional values from Terna processing.

⁹ Source: Unione Petrolifera

suggest a price in 2018 falling between US\$55-65/barrel, suggesting a stable rebalancing of supply and demand already starting in the first quarter of 2018. The increase in prices inverted the negative trend towards investments in exploration and production (E&P) which in 2017 increased by 6%, after two consecutive years of cuts. Overall, investments are 41% lower than 2014 levels, and the exploration portion saw an additional reduction.

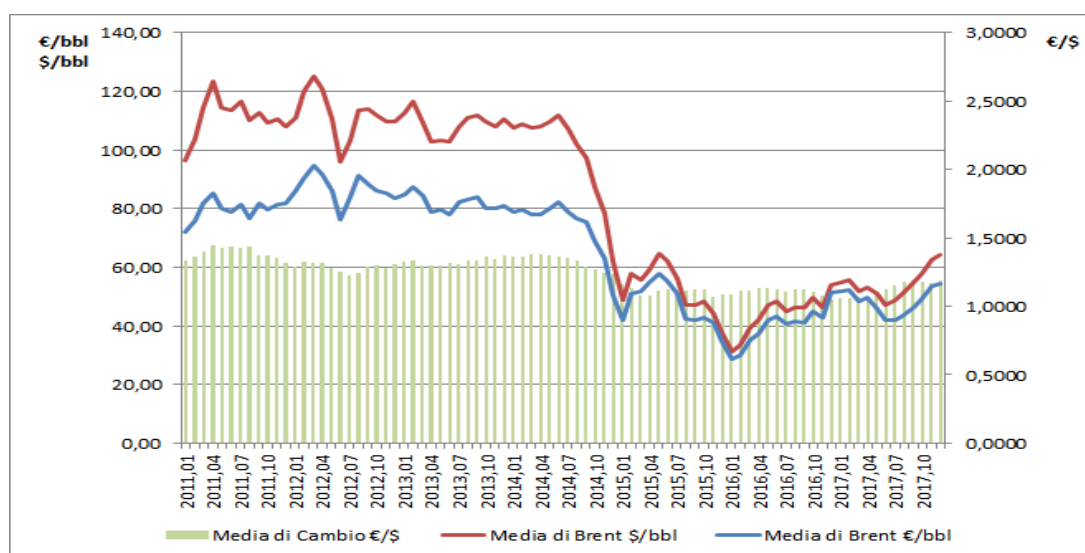
The International Energy Agency (IEA) predicts that world oil demand in 2018 will continue to grow, although to a lesser extent than in 2017, adding an additional 1.4 million bbl/d, with estimated total demand of around 99.1 million bbl/d.

However, it should be noted that the cartel of exporting countries and their partner nations have indicated a desire to extend the agreement on production cuts to rebalance the market and support the price of crude oil.

Trend of the euro/dollar exchange rate

In 2017, the euro/dollar exchange rate saw much greater volatility than the previous year, rising constantly during the first 9 months of the year up to a value of € 1.1914/\$ and then falling slightly during the last three months. During the year, it went from an average rate of around € 1.0631/\$ in January to a maximum rate of around € 1.1914/\$ in September 2017, ending the year at a slightly lower level of € 1.1843/US\$. The average annual rate was equal to around € 1.1297/US\$. As noted above, the maximum in 2017 was seen in September with a rate of € 1.1914/US\$. The minimum of € 1.0631/US\$ was seen in January.

Chart 1: Brent price vs Euro/Dollar 2011-2017



Source: Brent prices and EUR/USD exchange rate (Bloomberg)

Trends in the electricity prices

In 2017, the price to purchase electricity (SNP) on the Day Ahead Market (DAM) rose to € 54/MWh, returning to growth after the minimum lows in 2016 and realigning itself with the values seen in 2014-2015.

The increase in the SNP reflected increased prices for the main commodities, particularly gas, and a recovery in volumes traded which reached their highest levels in five years. DAM liquidity rose to an historic high (72.2%), mainly as an effect of an additional shift towards the market for volumes purchased by Acquirente Unico. On the sales side, gas-fed plants strengthened their position, seeing market volumes at the highest levels in six years, reaching 50% of the national total on the DAM. At the regional level, all sales prices experienced double digit growth, falling within a range of € 50/MWh in the South and € 61/MWh in Sicily. The Intraday Market demonstrated price trends still in line with the SNP and volumes that were only lower than the historic high recorded in 2016.

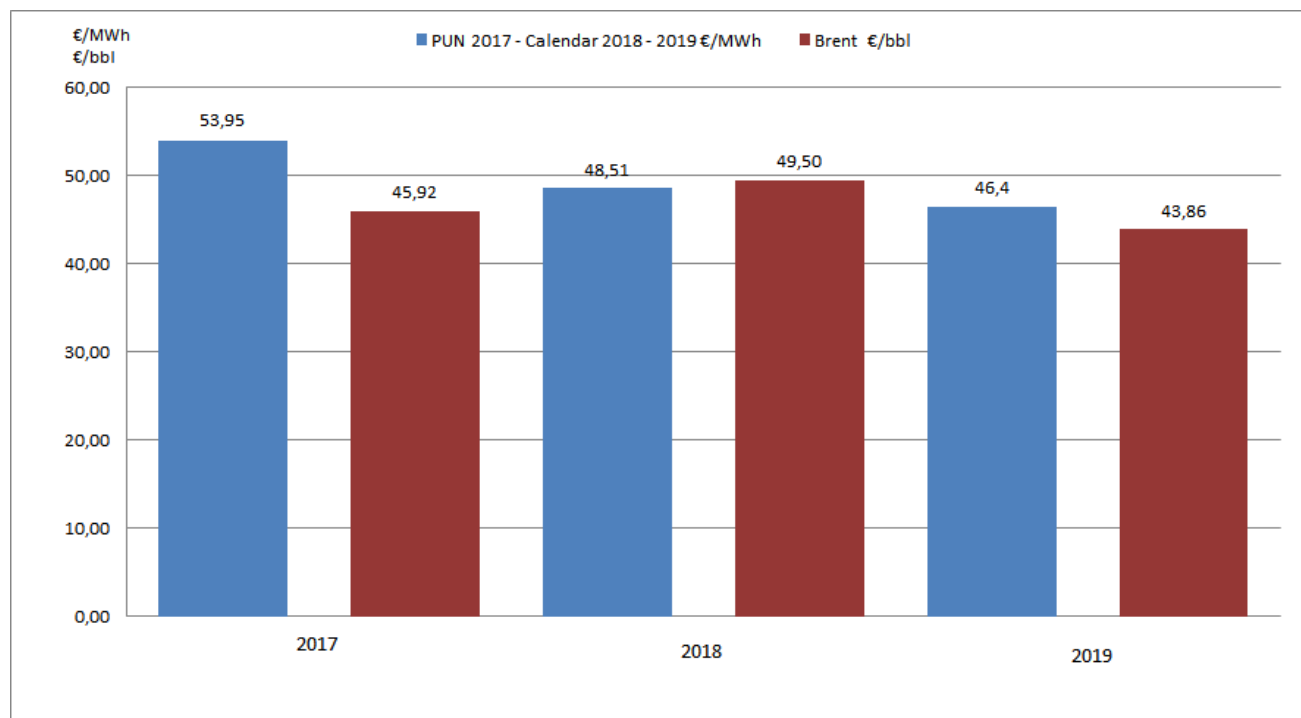
On the Forward Electricity Market, the annual 2018 baseload ending the trading period at € 54.32/MWh, suggesting price stability for the year in progress. Finally, transactions on the OTC Registration System (PCE) were at their lowest levels since 2012.

The Intraday Market demonstrated price trends still in line with the SNP and volumes that were only lower than the historic high recorded in 2016. On the Forward Electricity Market, the annual 2018 baseload ending the trading period at € 54.32/MWh, suggesting price stability for the year in course. Finally, transactions registered on the OTC Registration System (PCE) were at their lowest levels since 2012 ⁽¹⁰⁾.

¹⁰ Source GME Newsletter January 2018

The graph of Chart 2 shows for 2017 the average value of the SNP and the Brent Swap and, for 2018 and 2019, the average annual baseload product and its Brent Swap.

Chart 2: SNP and Brent trends



Source: Brent price (Bloomberg); SNP (Energy Markets Manager – GME S.p.A.)

The graph makes clear the lack of correlation between Brent and electricity prices.

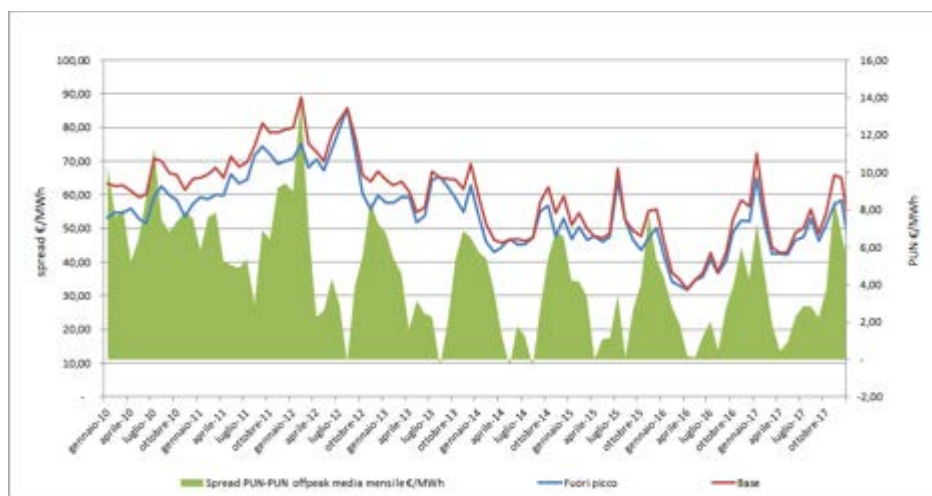
The average price to acquire electricity on the power exchange (SNP) was € 53.95/MWh and, although up by € 11.17/MWh with respect to the historic low of 2016 (+26.1%), was similar to the not particularly high values seen in 2014/2015.

This upward trend was seen throughout the year, although concentrated in the first two months, which saw continued tensions on the French market, and again in August, due to exceptionally high demand due to high temperatures. Similar growth trends were seen in the hourly groups with a peak price of € 62.34/MWh (€ +13.99/MWh, +28.9%) and off peak of € 49.58/MWh (€ +9.73/MWh, +24.4%).

The peak/baseload price ratio has changed very little over the last seven years and came to 1.16 in 2017 (+0.03 over 2016), the maximum value during the same period. The maximum hourly price is noteworthy, equal to € 170.00/MWh (the highest number since August 2012) at 6:00 pm on Wednesday, 13 December, a day that saw significant problems with the gas system and a consequent

declaration of a state of emergency by the MED. A figure that demonstrates the changes that have affected the performance of the SNP over recent years is highlighted by Figure 3, which represents the average monthly SNP (all hours of the month) and the SNP in the Off-Peak hours (from 8:00 pm to 8:00 am from Monday to Friday and all hours on Saturday and Sunday). The differences in terms of monthly average between the SNP and the Off Peak SNP were equal to € 6.7/MWh in 2010, € 5.5/MWh in 2011, € 5.4/MWh in 2012, € 4.05/MWh in 2013, € 3.89/MWh in 2014, € 3.69/MWh in 2015 and € 3.14/MWh in 2016, again in this case recording the historic low. On the other hand, in 2017 this difference rose, settling at € 4.42/MWh, a level not seen since 2012/2013. Furthermore, as regards the SNP in the F1, F2, F3 bands in the period from March 2017 to May 2017, and the month of August, the F2 price band was systematically higher than F1, confirming the trend already seen in the last few years. This trend can be attributed to a weak demand for electricity compared to the availability of generation plants, especially with regard to the strong spread of production from renewable sources, in particular photovoltaic to which, as it is known, is mostly due the so-called peak shaving, namely the reduction of the SNP during peak hours.

Chart 3: SNP Price Trend ⁽¹¹⁾ 2010-2017



SNP data source: Gestore dei Mercati Energetici – GME S.p.A.

¹¹ SNP: Single National Price, article 42.2, paragraph c of the Integrated Text on the Electricity Market, approved by Ministerial Decree dated 19 December 2003, as amended.

Electricity supply

Acquirente Unico guarantees the supply of electricity to customers of the Enhanced Protection Service. Following approval of the cited resolution 633/2016, reforming the conditions for the Enhanced Protection Service, Acquirente Unico obtains its supplies exclusively on the spot markets (DAM and MPEG), without signing any type of coverage contracts.

Acquirente Unico began purchasing on the MPEG in December 2016 and the first contract was stipulated for delivery day 19/01/2017.

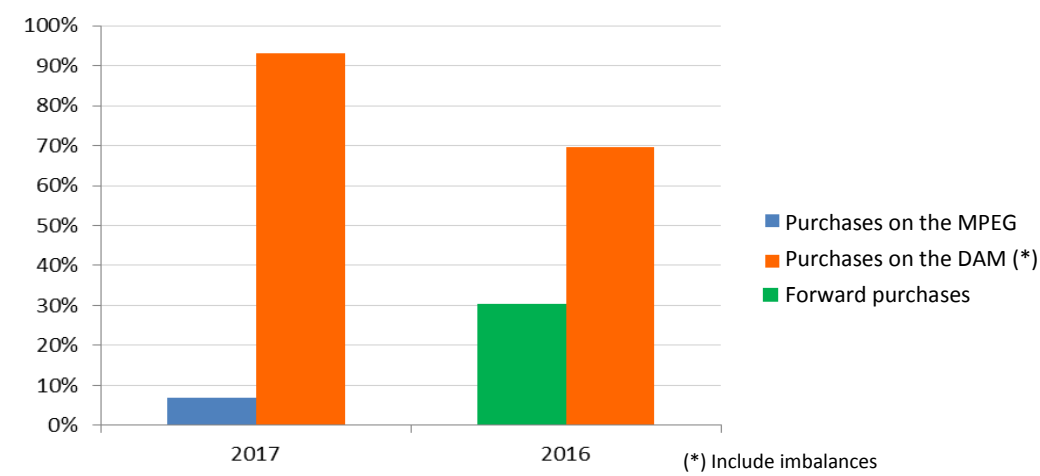
The table and graph below provide a comparison between 2017 and 2016 for purchases for the Enhanced Protection Service.

Table 10: Electricity supply for the Enhanced Protection Service 2017 vs. 2016

Type of supply	2017		2016		Change 2017 vs. 2016	
	GWh	%	GWh	%	GWh	%
a) Forward purchases						
a.1) Domestic contracts	-	-	13,940.2	24.1%	-13,940.2	-100.0%
a.2) MTE contracts	-	-	3,654.1	6.3%	-3,654.1	-100.0%
Total forward contracts (a.1+a.2)	-	-	17,594.3	30.4%	-17,594.3	-100.0%
b) Purchases on MPE						
b.1) DAM	51,242.2	93.8%	40,585.8	70.2%	10,656.4	26.3%
b.2) MPEG	3,713.5	6.8%	-	-	3,713.5	-
Total purchases spot markets (b.1+b.2)	54,955.7	100.6%	40,585.8	70.2%	14,370.0	35.4%
c) Imbalances	-348.9	-0.6%	-378.4	-0.6%	29.6	-7.8%
Total energy purchases (a+b+c)	54,606.9	100.0%	57,801.7	100.0%	-3,194.8	-5.5%

Source: Internal processing, Acquirente Unico.

Chart 4: Supply types 2017 vs. 2016



Source: Internal processing, Acquirente Unico.

A decrease in energy requirements was seen in 2017 compared to the previous year, going from 57.8 TWh to 54.6 TWh, approximately 5.5% less.

In 2017, electricity demand (54.61 TWh) was almost entirely satisfied through purchases from the power exchange (DAM). In fact, purchases on the MPEG amounted to 3.71 TWh, or 7% of total demand.

More specifically, 51.2 TWh were purchased on the Day Ahead Market, at a unit cost of € 57.07/MWh, while the remaining portion was acquired on the Daily Products Market (MPEG) with a unit cost of € 52.91/MWh.

The average annual cost of supplies, also considering unbalances, was € 57.30/MWh in 2017, compared to € 47.31/MWh in 2016, excluding costs relative to energy services.

Unbalances

Under ARERA Resolution no. 111/06, in 2017, the time offsets between the final and binding programs to cover the energy needs of the Enhanced Protection Service amounted to -348.9 GWh, around 0.6% of total requirements.

Energy supply costs

Energy supply costs for 2017, including service costs and net of the other revenues then transfer (unbalancing etc.), amounted globally to € 3,746,724 thousand, of which € 3,128,932 thousand was for the purchase of energy and the remaining € 617,792 thousand for dispatching and other service costs (Table 11).

Table 11: Energy supply costs (€ thousand)

Purchase cost of energy	2017	2016	Changes
Total cost of energy purchases net of other revenues	3,128,932	2,734,618	394,32
Total dispatching cost	611.856	801.489	(189.633)
Total cost for other services	5.936	5.712	224
Total cost for dispatching and other services	617.792	807.201	(189.409)
Total cost of energy net of other revenues	3,746,724	3,541,819	205

Source: Internal processing, Acquirente Unico

Sales of electricity to companies providing the enhanced protection service

Companies providing the enhanced protection service

At the end of 2017, the number of companies providing the enhanced protection service was 117.

Billing of Electricity sold by AU

The quantities invoiced monthly by Acquirente Unico to the enhanced protection service operators are defined based on the resolution made by the Authority, ARG/elt 107/09 (Integrated Settlement Text, TIS), as amended.

The invoicing and payment settlement methods are instead governed by resolution ARG/elt 156/07, as amended (Integrated Sales Text, TIV).

In 2017, following the settlement of balances by Terna with dispatching users, Acquirente Unico made balancing adjustments for all operators of the enhanced protection service for the energy sold in 2016, as well as for the late adjustments for the previous five years (2011 - 2015).

Sale price

The sale price of electricity for operators of the enhanced protection service is determined by the criteria set by AEEGSI resolution no. 301/12 and is equal to the sum of four components:

- the weighted average unit costs incurred by Acquirente Unico in the hours included in a given time slot (F1, F2, F3), for the respective amounts of electricity;
- the unit cost incurred by Acquirente Unico as a dispatching user for the enhanced protection service in the hours included in said bands;
- the unit price recognized for Acquirente Unico for electricity purchases and sales for the enhanced protection market;
- the unit cost sustained by Acquirente Unico to cover financial charges generated by using lending channels to purchase electricity on the day ahead market destined for enhanced protection customers.

Table 12 shows the trend in the sale price in individual months of 2017, broken down by hourly bands.

Table 12: Sale prices (€/MWh)

	Monthly Total (€/MWh)											
	January	February	March	April	May	June	July	August	September	October	November	December
F1	101.922	76.702	58.389	57.895	58.483	67.901	70.851	79.054	66.705	70.471	91.711	92.223
F2	89.631	72.232	62.492	61.447	61.877	67.411	68.171	80.253	66.780	70.900	78.657	78.600
F3	73.328	60.983	52.533	51.928	50.008	56.544	58.204	61.839	57.187	56.258	62.833	64.880
Average	88.314	70.361	57.789	56.560	56.476	63.645	65.421	73.006	63.545	65.595	78.224	77.283

Source: Internal processing, Acquirente Unico.

Safeguard Service – Electricity

Implementing the Authority's directives, in November 2016 Acquirente Unico carried out the tender procedures to assign the safeguard service for the 1 January 2017 - 31 December 2018 period. Upon completion of the foregoing procedures, Enel Energia S.p.A. and Hera Comm Srl were declared as the winners.

In 2017, Acquirente Unico did not complete any specific activities, while in 2018 it will presumably manage a new tender procedure to select new Safeguard Service operators, for supplies in years subsequent to 2018.

Supplier of last resort and Default distribution service - Gas

Based on the guidelines provided by the Authority, in the month of September 2016, Acquirente Unico carried out the tendering procedures for the identification of suppliers of last resort and the natural gas default distribution service for the next two thermal years (1 October 2016 - 30 September 2018).

Both the last resort supply service and the default distribution service were awarded to Hera Comm Srl and Enel Energia SpA.

Acquirente Unico also did not carry out any specific activities in 2017 for last resort supplier and the default service, while in 2018 it will most likely manage a new tender procedure to identify suppliers for subsequent thermal years.

ACTIVITIES IN SUPPORT OF OPERATORS AND END USERS

Energy and Environment Consumer Help Desk

2017 was the first year of activities for the Energy and Environment Consumer Help Desk (Help Desk), as a function of the objectives set in the **2017-2019 Operating Project** (Project), approved by the Regulation Authority for Energy, Networks and Environment (ARERA) with Resolution 727/2016/E/com of 6 December 2016.

The *Three Year Project* in progress confirms the Help Desk's role as the **single reference point** for effective management of disputes and requests for information from electricity and gas consumers, pursuant to the Authority's resolution 383/2016/E/com and TICO (Reformed Authority Protective System Project - STAR), as well as the methods for recognising and covering costs.

Starting in 2017 the changes introduced in these resolutions had a significant impact on the Help Desk's activities and organisation, as well as on the *portfolio of services* offered to electricity and gas consumers, also subject to significant updates.

In particular, as of 1 January 2017 effective second level dispute resolution activities for end light and gas customers for the aspects governed by the Authority, provided by the Claims Help Desk unit until 31/12/16, were managed by the **Energy Customer Arbitration Service**, serving as the main tool to resolve these problems and a necessary condition for moving on to legal action.

As of the beginning of 2017 **Special Procedures** (also referred to as **SMART Services**) became the channel to resolve specific problems (Resolution Procedures or SMART Help Services: bonus, Cmor cancellation pursuant to amendment to resolution 99/12, unrequested contracts pursuant to articles 8 and 9, resolution 153/12, lack of indemnity, double billing), or requests for information on specific issues (informational Special Procedures or SMART Info Services: Cmor import and supplier, transfer supplier, switching date and supplier).

Again as of January 2017, the **Toll Free Number 800.166.654** was enhanced through the introduction of new services, such as information about Similar Protection and Cases Begun with the Conciliation Service.

Additional developments seen in the year just ended included activation of regulatory support offered by the Help Desk service to the branches of the Associations for domestic and non-domestic consumers authorised by the Authority.

2017 can therefore be viewed as the first year of activity for an *Updated Help Desk* in terms of services offered to end energy and gas customers and called upon by the Authority to ensure management of the gradual extension of its activities to users of *water services* during 2018.

Relative to this last request, Acquirente Unico (AU) responded with a proposal for a new operating project to create a *2018-2019 Water Services Help Desk*, approved by the Authority with resolution 900/2017/E/idr of 21 December 2017.

The most recent changes seen in 2017 and the assignment of regulation responsibilities for the waste sector to the Authority (law 205 of 27 December 2017) also gave rise to the need to change the Help Desk name to ***Energy and Environment Consumer Help Desk***, so as to represent the entire portfolio of services that will be gradually offered starting in 2018.

In this context the Help Desk, through the efforts of a team of over *90 employees* supported by a co-sourcer managing the toll-free number and a team of conciliators, has established a set of organizational and technological skills and a deep understanding of sector regulations as well as management of relationships with all the players in the energy market.

In 2017, the Help Desk, due to these skills, in close cooperation with the Authority and with constant discussions with over **500** operators, managed:

- **363,000** calls received at the 800 166 654 toll free number;
- **33,000** requests for SMART Help and SMART Info services, information requests and notifications;
- **10,600** conciliation requests.

The services offered by SMART Services and the Conciliation Service are assessed on the basis of a set of strict service levels (SLA), agreed upon with the Authority and capable of “measuring” case management times and the quality of actions activated by the Help Desk.

In the same way the Call Centre at the 800 166 654 has to meet the SLAs established in ARG/com no.164/08, the Consolidated Text regulating the quality of energy and gas sales services (hereafter, TIQV) such as accessibility to the system, average operator waiting time and the level of service.

All services are also subject to customer satisfaction surveys from customers when the cases are closed, the results of which are provided below.

The Help Desk sends *monthly and quarterly reports* to the Authority, providing details on the activities performed and results achieved, and identifying proposals intended to strengthen consumer protection

and ensure the utmost transparency, publishing these results on a quarterly basis on the website www.sportelloperilconsumatore.it, which can also be accessed through the Authority's website.

The website also provides all the information and forms needed to access Help Desk services and fully manage requests online, adding documentation and checking on pertinent documents and the status of complaints.

Digitalisation of request management and dematerialisation of documents have been objectives pursued by the Help Desk since it began operating, with an eye to optimising time, cost, and service quality. Today, all customers and operator/managers are required to communicate solely online with the Help Desk, also with the assistance of the Contact Centre, with the sole exception of domestic customers not supported by a professional proxy, and hence unable to use the Single Portal.

Note that the Help Desk supported the *"Telecommuting" company project*, which involved 33 employees in 2017, who provide their services through remote connection, 60 - 80% of the time. The initiative continues to see positive results both in terms of motivation and performance for involved employees.

All Help Desk services are free of charge and easily accessible through the **Toll Free Number 800.166.654** or the website www.sportelloperilconsumatore.it, from which customers can manage their requests and view the relative brochures 24/7 and entirely online, once they have registered with the Single Portal.

Contact Centre

In 2017 the Contact Centre provided answers free of charge through the Toll Free Number 800.166.654 and in writing relative to consumer opportunities and rights on the free electricity and gas markets, tools to resolve disputes with their suppliers, procedures to obtain social bonuses and on the status of issues raised with the Contact Centre and Similar Protection.

The Contact Centre with an internal AU team and a team managed by the co-sourcer awarded the service, able to guarantee the needed flexibility for the structure in the face of any sudden increases in calls.

In 2017 the *Toll Free Number* managed around **363,000** calls during its open hours (Monday-Friday, 8:00 am to 6:00 pm, exclusive of holidays), in line with the previous year, as well as **2,500** written requests for information.

The Toll Free Number achieved the following *service levels* in 2017:

- **93%** service level (operator responses/calls) vs. the 80% established in the TIQV;
- **100%** service accessibility (available telephone lines) vs. the 95% established in the TIQV;
- **134** seconds was the average waiting time to reach an operator (including automatic responder messages), vs. the 200 seconds established in the TIQV;
- **94%** of consumers were satisfied with the service received, based on the evaluation given by around **52%** of consumers contacting the Toll Free Number.

Note that the Contact Centre provides an important function as an *incubator* for new employees to be inserted in other Help Desk units, with an eye to professional development and integration between the various areas.

Special Procedures

Requests for SMART Services (Special information and settlement procedures) and Notifications from consumers are identified, registered and classified by the *Special Procedures Unit* which, in terms of creating a file, analyses requests and, based on the subject, verifies the data requested from the Integrated Information System (IIS), or sends relevant information requests to relevant operators until the issue is fully resolved or informs the Authority of issues falling under its responsibility.

The **Unit** operates with:

- a *Technical Secretariat*, which registers and creates files and sorts incoming documents;
- a *team of experts* who specialise in dealing with various issues.

In 2017 **95,000 documents** were handled, ensuring that they were registered and sorted on the same day they arrived at the Help Desk, **20,000 new requests** to activate SMART services and notifications were analysed and handled, as well as **14,000 responses** from customers and operators.

In 2017, customers who requested support expressed a positive assessment of the service received **82%** of the time.

Energy Consumer Conciliation Service

As of 1 January 2017 *conciliation* became the **main tool** available to end energy and gas customers to resolve second level disputes relative to issues governed by the Authority, as well as a necessary condition to access the ordinary courts.

Since 2016 the Help Desk has provided training and certification for those serving as arbitrators, coming from the staff of the former Claims units, on a schedule to support the Service starting from the beginning of 2017, as well as beginning to create a *new web platform* able to guarantee optimal management of a constantly growing volume of requests and meetings in *virtual rooms*, in which the conciliation works to achieve an agreement between the parties, recognition of the same and manages the signature of the agreement documents through individual sign-ons.

The conciliation procedures within the Service are entirely managed online with no costs for the end user, in the presence of a specifically trained mediator made available free of charge, in compliance with the European regulations on energy and alternative dispute resolution (ADR).

The Service trained and provided support for all operators relative to using the new web platform (operators and distributors), in order to facilitate use and ensure optimal arbitration meetings.

In 2017 the Service continued to operate through a Manager, Technical Secretariat and a team of AU arbitrators supported by a team of external conciliators selected through agreements with the Chambers of Commerce of Rome and Milan, in order to guarantee necessary flexibility to the structure in terms of organisational requirements or any sudden upticks in requests.

The Secretariat manages incoming requests, supervises organisational aspects of conciliation and supports authorisation of operators relative to the web platform (at the end of 2017, over **185** operators had been authorised).

The Service also trains and updates all conciliators working for it and found on the list published on its website, rendering uniform the procedures used to manage cases and optimising the arbitration management system.

In 2017, **10,600** conciliation requests were handled, more than triple the number seen the previous year, due to the obligatory nature of the arbitration procedure in resolving disputes for energy and gas customers.

Requests were sent by end users and their proxies in **75%** of cases, and by consumer associations for the remaining portion, and involved disputes relative to invoicing issues in 60% of cases.

67% of conciliation requests were accepted by the Service and led to an agreement between the parties after an average of *40 days* with a minimum of *6 days*.

94% of participants in conciliations provided through the Service were satisfied with the service received and result achieved.

Starting in the second half of 2018, arbitration requests for the **water sector** will also be handled, as established in the cited resolution 900/2017/E/idr, which provides for an initial transitional period in which the arbitration attempt is optional.

Monitoring and Services

The structure provides monitoring and reporting regarding the performance of the various services offered by the Help Desk, prepares periodic reports for the Authority and the company, and identifies qualitative service levels for processes.

It also defines and updates operating procedures and tools in the face of regulatory changes in the sectors managed, as well as training to update the skills of AU and external resources who support the various services. It also implements special projects aimed at improving the relations with external parties (Authorities, Consumer Associations, vendors, etc.) and applies the Help Desk Regulations.

Integrated Information System

Context

The liberalisation of the energy sector, separating distribution and sales roles, led to the creation of new operators who need to exchange a large amount of information with each other in a systematic manner. In the electric market alone, over 40 million transactions are estimated per year, in which delays, errors, differences and inconsistencies cause higher operating costs and produce inefficiencies and malfunctions in internal operator processes, which inevitably have an impact on end customers.

In 2017, the number of operators working on the retail market for both the electric and gas industries saw a slight increase with respect to the previous year: electricity operators totalled 600 (including distribution companies, dispatch users, enhanced protection service operators, sellers, Terna and Cassa per i Servizi Energetici e Ambientali) and gas had around 800 operators (including distribution operators, transport operators, distribution users and sales companies).

The number of active users in both sectors remained substantially stable:

- the electricity industry saw the number of active delivery points remain constant at around 36.86 million;
- in the gas sector, the number of active users rose slightly, going from 21.62 million active delivery points at the beginning of the year to 21.72 million active points in December.

Processing of the data handled by the IIS in the Official Central Register shows a progressive increase in electricity supplies active on the open market, going from 14.52 million at the beginning of the year to 16 million in December, corresponding to the decrease in supplies provided through the Enhanced Protection Service, which fell from 22.3 to 20.7 million.

The table below indicates changes in supplier, highlighting transfers between the open market and protective regimes.

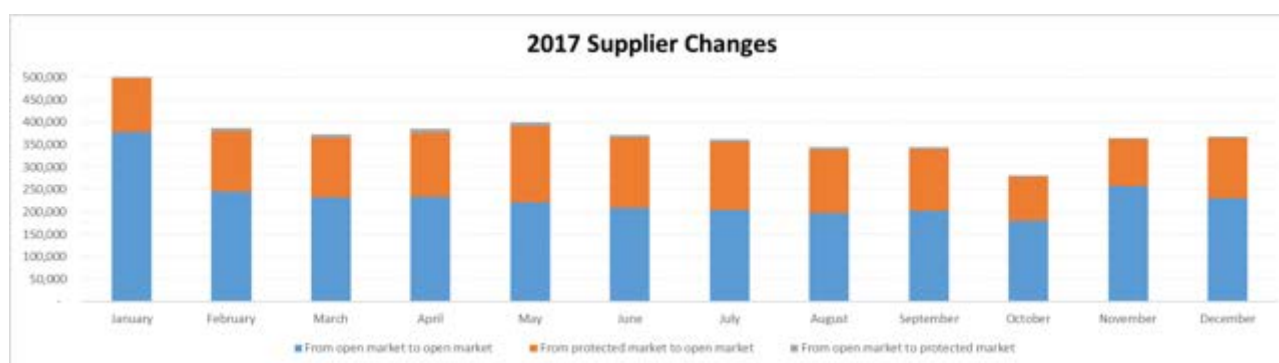
Table 13: change in supplier and transfers between the open market and protective regimes

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ttl
From open market to open market	377,359	244,852	232,702	234,109	220,822	208,773	203,359	197,279	201,855	179,626	258,017	230,548	2,789,301
From protected market to open market	119,692	133,544	132,057	141,670	171,093	156,020	152,198	141,226	137,529	97,627	102,918	133,497	1,619,071
From open market to protected market	7,509	7,757	7,973	8,958	7,302	6,590	5,443	5,319	5,292	3,740	4,224	4,224	74,331
Total supplier changes	504,560	386,153	372,732	384,737	399,217	371,383	361,000	343,824	344,676	280,993	365,159	368,269	4,482,703

Source: Internal processing, Acquirente Unico.

The graph below shows the switching trend in the electricity industry.

Chart 5: SWITCHING TREND IN ELECTRICITY SECTOR



Source: Internal processing, Acquirente Unico.

During 2017, around 185,000 users activated the service of last resort, following contract terminations announced by sellers that did not see the end customer selecting a new supplier. The table below shows last resort activations occurring during the year, broken down by activations under the enhanced protection and safeguard systems.

Table 14: last resort activations

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ttl
Safeguard activation files	72,295	2,235	4,108	3,118	2,814	4,119	6,115	3,697	1,889	4,761	2,119	3,864	111,134
Enhanced protection activation files	8,623	6,429	5,762	5,912	6,342	6,491	8,181	5,783	4,000	5,150	6,516	4,692	73,881
Total last resort activations	80,918	8,664	9,870	9,030	9,156	10,610	14,296	9,480	5,889	9,911	8,635	8,556	185,015

Source: Internal processing, Acquirente Unico.

In 2017, the most significant developments in IIS activities included:

- extension of the information contained in the electrical RCU;
- continuation of switching process management, that is changes of supplier associated with an electricity delivery point;
- extension of electricity consumption measurement data acquisition to points not dealt with on an hourly basis;
- implementation of Similar Protection, with the context of the reform of price protection mechanisms on the market for domestic customers and small and medium enterprises;
- full implementation of procedures to apply the television fee to electricity bills;
- continuation of management of flows used in monthly settlement and transfers in the gas sector;
- implementation of the initial stage of recodifying domestic fees for the electricity industry.

Again in 2017, during implementation of the new processes close cooperation with the Authority continued when standardising flows and re-engineering the processes in question.

Electricity Industry

Relative to business activity, the most significant developments in 2017 involved strengthening of the IIS's central role in the area of **managing measurement data** for electricity and gas consumption. This process which began in 2015 accelerated during the year and constitutes one of the main guidelines for the extension of IIS activities in the next few years.

The main activities in this area involved:

- **Hourly measurement aggregates;** measurement aggregation activities at delivery points for the purposes of settlement was assigned to the IIS with resolution 358/2016/R/eel. This activity involves around 300,000 electricity delivery points processed on an hourly basis and around 300,000 public lighting points conventionally profiled on an hourly basis. For each of the delivery points processed hourly, the IIS receives the measurements taken every 15 minutes on a monthly basis. Following the trial, established in the resolution and carried out during the final months of 2016, applications were developed and, as of February 2017, beginning with every quarter-hour measurement data from each delivery point the IIS processes hourly aggregates for each dispatching user (UDD) of each distributor, providing an official value. Additionally, the IIS sends these aggregates to Terna, distributors and UDDs. Until 2016 this activity was assigned and carried out by distributors. The same resolution assigned IIS, as of October 2017, the task of managing adjustments to economic items deriving from adjustments of annual settlements and late adjustments relative to hourly delivery points (hourly SEM). During the year, after checks are performed, distributors send the IIS any adjusted measures for hourly delivery points. In October of each year (SEM1), the IIS processes adjustments for the first half of the year in course and reprocesses adjusted monthly aggregates for the half in question. In May of each year (SEM2), the IIS processes any adjustments received up to 60 months prior, reprocessing and disseminating the adjusted monthly aggregates for the years in question. The resolution establishes that the IIS will process SEM1 starting in October 2017 and SEM2 as of May 2018.
- **2G Measurements Acquisition;** in 2016 the Authority defined the characteristics of second generation meters (2G), outlining the IIS's role relative to acquisition of measurement data collected by distributors and then made available to sellers. At the end of 2016, E-Distribuzione presented its plan to replace installed meters with new 2G meters to the Authority, forecasting around 2 million replacements by the end of 2017. The plan was

approved by the Authority in March. Resolution 248/2017/R/eel defined projects to manage measurement data associated with the 2G smart metering systems within the context of the IIS, aimed at subsequent optimisation of sales and system processes. In particular, the resolution establishes that:

- the distributor obtains measurement data every fifteen minutes, validates it and makes it available to the IIS within 24 hours of reading;
- within 24 hours, IIS makes measurement data available to UDDs for their relevant delivery points.

To support management and verification of 2G meter replacement plans, the same resolution assigns the IIS the task of collecting complete technical data for the new meters, the reason for replacement (that is, whether it is part of a massive replacement plan or installed for different reasons) and the date in which the meter is expected to be fully operational. **When measurements taken by the new meters begin to be sent to the IIS, this certifies effective completion of the installations carried out by distributors.** These events are monitored by the IIS and reported to the Authority to be used in assessing progress in approved replacement plans.

To implement that established by the Authority, an operating prototype was created, using innovative technology intended to manage “big data” and “cloud computing”, to acquire and instantly share data with the IIS and sector operators. At the start of May the technical specifications were published and by the end of June initial functions were released. In July operational checks were performed and experimentation with Enel began. In August official acquisition of measurement data coming from the new 2G meters began, based on that established in the resolution.

- **Electricity measurements made available in a centralised manner to dispatch users and enhanced protection service operators.** In August, resolution 594/2017/R/eel assigned IIR to serve as the sole interface to make measurement data available to distributor companies and dispatch users. Until that point, individual distributors had been responsible for sending UDDs and the IIS consumption measurements obtained by their meters. With the resolution in question, the IIS definitively takes on the role of a centralised service that collects, saves and disseminates measurement data (both that obtained with current meters and those from new 2G meters), as well as managing, through the RCU, “system relations”, connecting each delivery point, distributor, end user, dispatch user and commercial party. Management of this

activity is preparatory to managing infra-monthly switching. In October the technical specifications were published and that established under the resolution began to be implemented, with a functional parallel with operators begun around mid-November. The new tasks are expected to take effect at the beginning of 2018.

Relative to **commercial processes**, the main developments in 2017 involved:

- **Management of new domestic electricity rates**, governed by resolution 130/2017/R/eel, in the context of the IIS. This had a notable impact on applications and databases and required modifications to be made to numerous processes already operating (transfers, switching, RCU update, settlement, TV fee). At the end of 2016, the Authority defined the rate reform (resolution 782/2016/R/eel). In April 2017, with resolution 130/2017/R/eel, the Authority established the procedures functional to a massive update of the information contained in the Official Central Register (RCU), as well as revision of the procedures used to update this data, in order to allow for proper application of the rate reform. The procedures to update distribution rates for domestic customers in the RCU were prepared by the IIS Manager and published as an annex to the resolution itself. The Manager then updated the distribution rate code in the RCU, in order to make it consistent with the amendments implemented by the gradual network rate reform process and rate components covering general system charges for domestic electricity users. To minimum application and management impacts falling on operators, an initial “transitional” recoding stage was provided for, to ensure that existing commercial processes could continue while awaiting full implementation of rate reform and necessary adjustments to operators’ IT systems.
- **Development of the indemnity system:** implementation within the IIS and regulation of its application to the natural gas sector, resolution 593/2017/R/com of 3 August 2017.

The indemnity system was governed in transitional mode for the electricity industry in 2010 and became operational in 2011 on a technological platform separate from the IIS. The August provision approved the “Integrated text for the indemnity system applying to end customers in arrears in the electricity and natural gas sectors” (TISIND) which defines the regulations to be applied to the indemnity system, for both the electricity and natural gas sectors, and establishes that implementation will occur within the IIS. Following completion of the reform to processes managed within the IIS - in particular transfers and switching - it was possible to approve the regulations for the indemnity system, significantly simplifying activities for sellers and

distributors with respect to the transitional regime. The objective field of application and indemnity quantification criteria remained unchanged for the electricity industry (customers connected in low voltage). The new regulations extend application of the indemnities system to the gas sector for domestic end users, condominiums for domestic use with annual consumption not exceeding 200,000 standard cubic meters and for other uses with annual consumption not exceeding 50,000 standard cubic meters. Operating flows and methods for the indemnity system were completely revised, so as to have a minimal impact on the IT systems for sellers and achieve the utmost simplification for distributors, compatible with the information available in the RCU. During the last four months of 2017, the technological model for the new processes and functions to be implemented in the IIS were analysed, and the technical specifications were published. Implementation activities are planned for 2018.

Additionally, management of activities begun the previous year continued, as detailed below:

- **Management of the Official Central Register (RCU);** the Register collects official data relative to all energy delivery points installed on distribution networks connected to the Italian transport network: around 44.4 million delivery points counted, of which around 7.5 million points not energised.
- Management of information flows relevant to balancing the network and forecasting consumption (settlement), begun with resolution 57/2013/R/com. The activities include monthly management of identifying information for delivery points served on the open market and adjustments to mistakes in attributing delivery points to dispatch users by distributors, as governed by resolution 308/2013/R/com, as well as managing half-yearly adjustment of data regarding area deliveries.
- Daily acquisition of activation request results, contract deactivation and termination due to arrears for delivery points coming from distribution companies, with simultaneous of the RCU, as envisaged in resolution 82/2014/R/eel. On the whole, an average of 13,000 changes are handled daily.
- Provision of the Precheck service, governed by resolution 2/2014/R/eel. An average of around 420,000 queries are sent by sellers each day to verify a match between the POD and the identifying information for the end consumer owning the delivery point in the RCU.

- Management of the transfer process, implementing Resolution 398/2014/R/eel and subsequent resolution 161/2015/R/eel. This involves management of around 120,000 transfer requests per month.
- Management of the Indemnity System. 332,336 new indemnity requests presented by outgoing operators were processed in 2017, as well as activities involving cancellation, accounting and changes to files opened in previous years not yet concluded. Additionally, spot checks were performed to check the accuracy of the data declared by operators.
- Management of the *Similar Protection* Portal, within the context of the reform of market mechanisms to protect prices for domestic customers and small and medium enterprises. Resolution 369/2016/R/eel assigned the AU the role of Similar Protection Manager and the task of creating and managing the “Central Site” where active electricity users can select a supplier to adhere to the new service. The same resolution establishes that the portal interacts with the IIS, which carries out control and accounting functions for reservations and switching carried out under Similar Protection. As of 1 January 2017, as established in the resolution, the Central Site and Similar Protection management system were operational within the IIS.
- Management of procedures to apply the *television fee in the electricity bill*, implementing that established in the 2016 Stability Law. During 2017, the IIS applied around 22.5 million charges per month, with important consequences for the government’s finances. In fact, IIS activities led to around € 500 million additional funds. Additionally, in 2017 procedures to manage reimbursements of improper instalments were implemented in the IIS;
- Acquisition of *electricity consumer measurement data* for points not dealt with on an hourly basis, implementing resolution 402/2015/R/eel, and for those dealt with on an hourly basis, implementing resolution 640/2014/R/eel, found in the RCU; around 40 million monthly measurements are handled, also including adjustment flows relative to these measurements. With regards to points handled on an hourly basis, as provided for in resolution 640/2014/R/eel, the IIS receives the measures taken the previous month each month, with detail down to each quarter-hour, for each of the 300,000 points involved.

Gas Sector

Resolution 434/2017/R/gas began experimentation in the gas sector to make measurement data available to the Integrated Information System. In fact, starting in November a pilot project for information exchange was begun with gas distributors, aimed at verifying the accuracy of tracking. It is expected that the applications will be completed at the start of 2018, and the experiments defined in the resolution will become operational.

During the year, management of processes begun the previous years continued and was strengthened, as indicated below:

- Careful updating of the GAS RCU, accreditation of commercial counterparts, in order to make possible extension of the pre-check service. IIS accredited companies operating in the gas sector include 10 transport companies, 211 distribution companies, 335 distribution users and 420 sales companies. Within the GAS RCU the approximately 25 million delivery points (of which an average of 21.7 active and 3.5 actionable) are updated with a frequency of around 11,000 changes per day, received from distributors following activation, deactivation, transfer and switching operations and amending identifying data for delivery points.
- Management of *settlement flows* (TISG), implementing resolution 418/2015/R/com. As of July 2016, the IIS ensures official management of the flows it is responsible for. Additionally, implementing resolution 312/2016/R/gas, relative to gas balancing and implementing regulation EU 312/2014 of 1 October of the same year, by the end of each month the IIS publishes the sum of the annual deliveries associated with each delivery point on the distribution networks, aggregated by delivery point on the transport network and detailed by the standard delivery profile type;
- Management of *gas transfers*, implementing resolution 102/2016/R/com. Starting on 1 December 2016, as established in the resolution, the new processes began to be operational. In 2017, an average of 81,600 transfers were managed monthly.

Other activities

In 2017, in its role as Manager AU provided the necessary technical support to the Authority in defining development guidelines for processes to be managed through the IIS. This support involved the issuing of the following deeds:

- Resolution 130/2017/R/eel (9 March), containing provisions functional to the updating of the information in the RCU following the rate reform governed by resolution 782/2016/R/eel.
- Consultation document 230/2017/R/gas (6 April), regarding guidelines for the experimental sending of measurement data from all delivery points to the IIS.
- Resolution 248/2017/R/eel (13 April), which defines the methods and schedules for making 2G measurement data available to the IIS and transport users, in accordance with the functions and service levels defined in resolution 87/2016/R/eel.
- Consultation document 377/2017/R/eel (25 May), regarding guidelines to give IIS the role of single interface to provide measurement data to distributor companies and dispatch users in the electricity industry.
- Consultation document 466/2017/R/eel (22 June), regarding guidelines to apply the treatment pursuant to TIS to delivery points on which a new meter will be installed as part of 2G measurement systems and the configuration process for these systems by commercial parties.
- Resolution 434/2017/R/gas (15 June), which establishes provisions regarding the start of experiments to make measurement data available to the IIS with reference to the gas sector.
- Resolution 593/2017/R/com (3 August), which establishes the criteria and methods with which the indemnity system regulations are implemented within the IIS and applied to the natural gas sector, ensuring uniformity between the two sectors.
- Resolution 594/2017/R/eel (3 August), which assigns IIS the role of single interface to make measurement data available to distribution companies, dispatch users and commercial counterparts in the electricity sector.
- Implementation provision to create the IT portal known as “Offer comparison portal”, envisaged under paragraph 61 of the Annual Market and Competition Law 124 of 4 August 2017. The portal will collect and publish current offers for the retail electricity and gas sales market, particularly for domestic users, companies connected in low voltage and companies with annual consumption not exceeding 200,000 standard cubic meters).

- Resolution 700/2017/R/eel (19/10/2017) Provisions regarding the application of hourly treatment for entry and delivery points with 2G smart metering systems.
- Resolution 740/2017/E/eel (10/11/2017) Approval of the inspection check program for companies that sell and distribute electricity, regarding requirements associated with the use of the Integrated Information System.
- Resolution 850/2017/R/gas (5/12/2017) Provision regarding the extension and updating of the data contained in the official central register of the Integrated Information System, with reference to the natural gas sector.
- Resolution 921/2017/R/eel (28/12/2017) Implementation provisions to recognise subsidies for heavy electricity consumption companies pursuant to the Ministry of Economic Development decree of 21 December 2017. Updating of the TISDC and TISSPC in relation to the new regulations for heavy electricity consumption companies.

Additionally, activities continued relative to operating management of technological infrastructure and software applications created to provide services, ensuring operations for all accredited operators in both sectors. During 2017, end users active on the IIS web portal rose from 4,000 to 5,000. Additionally, another 22 communication ports were certified and rendered operational, added to the 40 activated in 2016. In this way all the main users accredited with the IIS were connected in the advanced method.

Retail Market Monitoring system for electricity and natural gas

“Retail Monitoring” activities continued in 2017 within the context of the Integrated Information System (IIS), which operates under an avallment contract on behalf of the Authority.

This area supports the Authority in the operational phase of collecting basic data and serves as a technical interface vis-a-vis the operators required to participate in the retail monitoring system.

Costs related to the activity are managed independently from the Integrated Information System with an appropriate cost centre.

During 2017, 16 data collections were managed, aimed at observing non-payment issues, the default service, last resort supply service, closing invoices, period invoices, impact of estimated consumption with respect to effective consumption, switching and economic renegotiation, both on the open and protected markets.

In 2017, data validation controls were strengthened relative to data collection assigned to AU and support activities directly provided by internal AU resources continued, to identify specific phenomena, including subsequent processing and investigations with involved subjects. Additionally, support was provided to the Authority in preparation of the annual report for the retail market from 2012 to 2016.

To simplify collection of data provided directly by sector operators, starting in 2017 identification of responsible parties was carried out exclusively on the basis of information extracted from the IIS. Additionally, activities were begun to integrate data used to calculate certain TIMR indicators with information extracted from IIS databases (in particular, to collect monitoring data relative to closing invoices issued by electricity distributors).

In terms of the role that IIS plays in the proper functioning of retail market processes, in 2017 significant developments in the technological platform were achieved, to adequately support continuously increasing operating volumes and simultaneously guarantee effective continuity of service. The new platform features a new configuration based around two equal data centres which are both active. This makes it possible to divide the load of process activities between both centres, in a dynamic manner, ensuring synchronous responses from the entire database using the memories present in the two centres. This option, in addition to offering notable management flexibility, makes it possible to guarantee continuity of service without data loss, even when only one of the two centres is active.

Italian Central Stockholding Entity - OCSIT

During the first months of the year, OCSIT concluded a series of activities in to discharge its obligations relative to the fourth stock year, in relation to which the Ministry of Economic Development (MED) planned an acceleration in the business plan, involving the acquisition of an additional stock day (around 100 kT of product), with respect to the three days envisaged, to be carried out by 1 April, the first day of stock year 2017-2018.

In the month of February 2017, the actual costs incurred by OCSIT in 2016 (so-called final balance) were communicated to MED, necessary for determining the amount of the balance of the adjustment contribution due by the economic operators. The final balance showed, for the fourth year in a row, total costs lower than those planned in the budget. In detail, the actual costs amounted to € 12,593 thousand, compared with an estimate of € 15,593 thousand, showing savings of 19%. The difference was reimbursed to operators starting in November 2017, at the time of the adjustment, following approval of the interministerial decree which determined the 2017 contribution.

The Ministerial Decree of 20 February 2017, which confirmed 1 April as the start date of stock year 2017/2018, established the total amounts for emergency stocks and specific stocks to be held by the system during the year, subdividing the holding requirement at 10 (ten) days for OCSIT and 20 (twenty) days for the economic operators.

In the months immediately prior to the start of the stock year, tenders were issued to obtain storage capacity and to acquire products, with operators already qualified as suppliers of storage capacity and products invited to participate. A tender was also issued to obtain the financial resources necessary to acquire the goods, given that those deriving from the previous loan had been exhausted.

To that end, on 21 March 2017 the loan contract was signed, following approval by the Board of Director of the awarding of the relative tender, during the course of which OCSIT received bids equal to around 2 times the amount requested. Two entities (an important Italian credit institution and a temporary business consortium consisting of major financial institutions) were awarded different portions of the overall loan, allowing OCSIT to obtain the entire requested amount of € 400 million at competitive rates.

The positive completion and awarding of all the tenders planned allowed OCSIT to comply with its holding requirements as of 1 April, for a total of 1,000,835 tonnes of product.

The most recent purchases, relative to 4 stock days, and equal to 371,836 tons of oil products, were subdivided and placed as follows:

- 256,714 tons of gasoil, of which 80,000 in Volpiano (TO), 10,000 in Calenzano (FI), 6,714 in Sarroch (CA) and 160,000 in Gaeta (LT);
- 69,654 tons of gasoline, of which 45,000 in Volpiano (TO), 20,000 in Gaeta (LT) and 4,654 in Rho (MI);
- 41,028 tons of jet fuel, of which 30,000 in the Gaeta (LT) depot and 11,028 in Rome;
- 4,440 tons of fuel oil, of which 2,220 in Augusta (SR) and 2,220 in Sarroch (CA).

To insure the goods, as the new purchases were already included in the new maximums set for the period 1 July 2015 - 31 March 2018, the insurance company received an update only with regards to the list of new depots added.

Payment for the oil products, totalling around € 177 million, was covered through the initial use of the funds obtained from the new loan. Taking into account payments relative to the purchase of the first 6 stock days, for € 297 million, the total expense sustained by OCSIT from 2014-2017 for 10 stock days amount to € 474 million.

On 21 April, the usual Consulting Committee was held with economic operators during the course of which certain important issues were discussed, in particular that relative to management of storage contracts expiring during 2017. To minimise risks and charges deriving from possible repositioning of the goods, OCSIT exercised a 3 month extension on the expiry dates (from June to September) so as to obtain the necessary technical time to issue and award any sale/repurchase tenders. The organisation's financial situation was also discussed at the meeting, with particular focus on the need to repay loans in coming years and methods of obtaining financial resources over the medium/long-term. Relative to this latter aspect, the possibility of diversifying the sources was given a nod, obtaining longer durations and more favourable rates through the issuing of bond loans.

On 20 June 2017 the Revenue Agency issued a ruling on the nature of the OCSIT contribution, in response to a specific request for an opinion presented by Acquirente Unico SpA. In essence, the validity of the accounting structure already adopted by AU/OCSIT was confirmed, based on which the portion of the contribution received to cover financial charges is used to eliminate said charges. In this way, the principle of financial, equity and economic balance already present for AU is maintained and strengthened for OCSIT. Any non-deductibility of financial charges would have had a negative influence on the organisation as a going concern and indirect effects on Acquirente Unico's status as such.

During the final days of June, the tender was carried out regarding legal assistance service relative to a bond loan used to finance Acquirente Unico spa in its role as OCSIT. The tender signalled the start of

a process which, after leading OCSIT to obtain a credit rating from one or more international agencies and to identify the banks which will support and guide the transaction, will culminate in the issuing of a bond loan, once all appropriate authorisations have been received, with an eye to diversifying sources of financing and extending maturity dates.

Note that in August 2017 law 124 was approved (Annual Market and Competition Law) which in article 1, paragraph 106 established that as of 1 January 2018 the LPG Adjustment Fund would be eliminated and the relative functions and responsibilities, as well as the relative legal relationships both receivable and payable would fall under the functions performed by Acquirente Unico Spa through the Italian Central Stockholding Entity (OCSIT).

In early September, OCSIT attended the annual meeting of ACOMES (Annual Coordinating Meeting Entities Stockholding), during the course of which it informed its European partners about the implementation status of its business plan and shared “best practices” relative to certain issues in the sector.

Finally, note that at the end of September, as the storage contracts were expiring, after having been extended for 3 months as indicated above, the tenders issued by OCSIT indicated the need to reposition a marginal part of the quantities involved, equal to 3,171 tons of BTZ fuel oil.

The publication of the inter-ministerial decree on 27 November in the Official Gazette, made it possible to proceed, on one hand, to returning the balance relative to 2016 and, on the other, to monthly invoicing to operators of the advance on the 2017 contribution. Both the restitution process and collection of the contributions were performed regularly within the deadlines established in the decree, allowing OCSIT to regularly collect the monthly payments for the period from April to November, by the deadline of 31 December 2017.

As established in the already cited guideline document, in article 2, paragraph 1, by the deadline of 30 November OCSIT communicated its forecasts of costs and charges relative to financial year 2018 (2018 Budget) to the Ministry of Economic Development’s General Directorate for Security of Supply and Energy Infrastructure. The Budget was approved in advance by the Board of Directors of Acquirente Unico Spa at its meeting on 24 November 2017.

During the final part of the year, certain preliminary activities were begun relative to the operations which will come to a natural conclusion during the coming year, including:

- Internal assessments preliminary to resolutions regarding the bond issue, with particular reference to the authorisation process;

- issuing of a tender relative to the new insurance contract for OCSIT goods for the five year period from 2018 - 2023;
- operational guidelines for the transfer of functions and skills from Cassa Conguaglio GPL to AU/OCSIT.

Simply for informational purposes, note that the total market value of stocks held by OCSIT at 31 December 2017 was € 507,439 thousand, with unexpressed capital gains of € 33,875 thousand with respect to the total average purchase value.

Summary of investments in emergency petroleum product stocks

The table below shows the valuation of stocks in the balance sheet at 31 December 2017, separately by type of product supplied and held, with the indication of the relative quantities according to the tax records.

PRODUCTS	QUANTITY (Tonnes)	VALUES (euro)
GASOLINE	193,616	104,759,741
GASOIL	683,221	314,100,266
JET FUEL	100,754	48,305,203
FUEL OIL BTZ	23,244	6,399,510
TOTAL	1,000,835	473,564,720

OTHER CORPORATE ACTIVITIES

Human Resources

In 2017, management and development of Acquirente Unico staff was characterised by full internalisation of activities that were previously managed through a service contract with the parent company GSE.

In particular:

- management of performance management processes.
- management of obligatory training.
- management of variable bonuses and the corporate performance bonus.

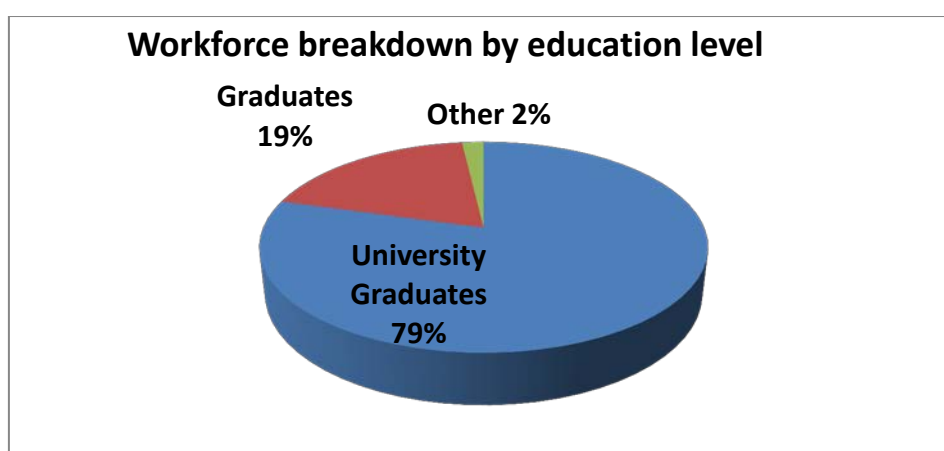
Additionally, the internal mobility plan was completed, which had been begun in 2016 mainly to satisfy development needs associated with the Integrated Information System.

Workforce development

In 2017, there was an increase of 5 units in terms of employees (both permanent and contract), going from 209 at 31 December 2016 to 214 at 31 December 2017.

This increase was due to a natural development of activities. Overall, the composition of AU's workforce at 31 December 2017, as compared to 2016, shows substantial stability in the presence of university graduates, who represent 79% of company workforce (i.e. holders of bachelor's and master's university degrees).

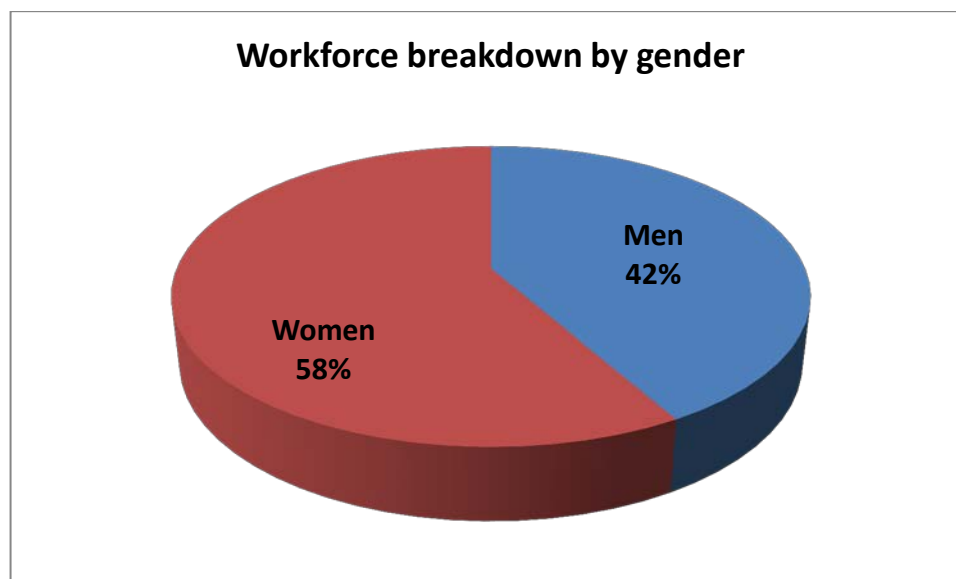
Chart 6: Workforce breakdown by education level



Source: Internal processing, Acquirente Unico, at 31 December 2017

Additionally, in 2017 the Company maintained a stable positive relationship of the presence of the female component on the male component, as shown in the table below:

Chart 7: Workforce breakdown by gender



Source: Internal processing, Acquirente Unico, at 31 December 2017.

Training to support skills development

The training plans carried out in 2017 dealt with themes relative to Legislative Decree 81/08, as amended (Workplace Health and Safety). Additionally, again with regards to health and safety, the Company decided to obtain BS OHSAS 18001:2007 certification, providing the relative training to all employees using e-learning methods. The training initiative had an attendance rate of 98% in terms of total training provided.

Additionally, a Civil and Commercial Mediation training course was organised, serving as the foundation for issuing of the associated certificate. The course served the need to requalify staff in the Consumer and Arbitration Area, following regulatory changes which affected this area.

Note that all employees involved in the training initiative obtained an Arbitrator certificate.

Corporate Information Systems

Energy Area

Development and maintenance activities continued throughout 2017 on the Energy Retail IT platform used by the Energy Operations Office to manage electricity purchase contracts, adding new functions to the MPEG module developed the previous year so AU can participate in the daily products market activated by GME. In particular, this included management of charges associated with AU operations on MPEG.

Additional activities affected the module used to calculate the sale price, adjusting the relative reports through the introduction of a component indicating financial charges for purchases on MPEG.

In terms of consumption and electricity price forecasts, many actions were carried out on the Belvis application, both technological and functional.

To strengthen operations in the SNP price and demand prediction systems, new import formats were configured, to improve the efficiency of the process used to input data coming from weather sources.

New SNP price prediction models were also implemented, using production data for renewable sources. To guarantee a structured operating method as well as the possibility of reconstructing and justifying decisions made in terms of forecast calculations, a configuration of historic series was created beforehand, to import data from renewable sources, with the new forecast models configured subsequently.

In terms of technological infrastructure, a migration project was begun at the end of the year to move the Belvis application client component from user work stations to central servers. The objective was to create a configuration that allows users to utilise the application through a new Terminal Server based infrastructure, rather than on individual client stations.

To strengthen price and quantity forecasting activities, in November an assessment was done of web services that provide continuous monitoring of the main electricity and gas markets, whether spot or forward. The services offered by these web portals include market analysis involving various time horizons and for different purposes, with the aim of highlighting certain market trends, setting strategies and identifying benchmarks.

In particular, a portal specifically dedicated to analysing variables of interest to AU has been identified. These variables include, among other things, spot and forward prices for energy and oil products, exchange rates, renewables and weather forecasts, SNP forecasts and consumption forecasts, as well as

updates regarding sector regulations. A 6-month testing period for the web platform is planned to start in the first few months of 2018.

Relative to digitalisation of document processes, optimisation and strengthening activities have been performed for management of certified email (PEC) and digital signatures.

In particular, AU has seen a notable increase in PECs arriving over the last few years, with around 20 PEC mailboxes dedicated to structural activities and a similar number for individual users.

The most significant problems were seen in managing PEC mailboxes used for AU's operational and institutional areas, such as Administration, Purchasing, Legal, Consumer Help Desk, OCSIT, etc. In these situations, which normally see several users who all need to share the same mailbox, the standard PEC management system does not offer the possibility to use several users with different credentials and access profiles. To resolve this issue, specific applications have been created over the years. These include, for example, that used to manage PEC communications for tender processes and that used to send invoices.

An additional difficulty arose from the growing number of communications sent and received and the limited size of PEC mailboxes, with the consequent need to periodically make manual backup copies given the lack of automatic archiving tools made available by the PEC manager.

Hence, in 2017 a search for products on the market was begun, to identify structured and secure solutions.

The final choice fell on a web-accessible application known as PECMailer, which makes it possible to organise the content of PEC mail boxes in both multi-account and multi-user mode, managing PEC mail boxes in a controlled fashion and allowing for the definition of permissions and access policies with the utmost flexibility, from a single administration panel.

The application means communications received can be subdivided by type and connected to messages sent. Additionally, it helps users to manage mass mailings, overcoming the limits set by the PEC manager in terms of the number of recipients per single message and the size of the mailbox.

An additional feature offered by the product is automatic replacement archiving using CAD rules for PEC messages sent and received, as well as the relative attachments, thereby avoiding the PEC mailbox being blocked due to a lack of available space.

The new application began use in testing mode at the end of 2017 and during the first few months of 2018 the migration process to move the PEC mailboxes to the new manager will be carried out.

Digital signatures have also seen significant growth in their use within AU's authorisation processes. These include issuing of purchase orders, approving invoice payment and to improve and fully digitalise document processes internal to the company.

A digital signature, which represents an electronic equivalent to a pen and paper signature, is permanently associated with the electronic document on which it is affixed, and provides certification of integrity, authenticity and non-repudiation. Nonetheless, to ensure the accuracy of the digital signature certificate, it is necessary to keep signature products used up to date in order to avoid the consequences of invalid signatures or errors in verification, in line with the law and regulations on the subject.

The technological decision made in this area was to transfer management of signature certificates from equipment located in the AU Data Centre, which was costly and required maintenance and updates, to services provided online by an entity accredited with AgID (Agency for Digital Italy) which, in addition to cost savings, makes it possible to use digital signatures outside of AU's IT infrastructure.

Consumer and Conciliation Area

The IT project which affected this area for most of the year involved the creation of an integrated IT platform to manage arbitration cases to resolve disputes between consumers and electricity and gas operators.

The Energy Customer Conciliation Service, instituted by the Authority in 2012 with a heavy focus on electronic features, began operating through AU in 2013, which initially adopted an IT solution offered by a provider through a web service.

This platform, which offered integrated management of the document workflow for cases, with virtual arbitration meetings held through a video conferencing system, made it possible to manage thousands of arbitration cases between 2013 and 2017. Nonetheless, the new regulations on out of court settlement of disputes, based on which an attempt at arbitration is a necessary condition for moving on to a legal case, suggested significant growth in the number of arbitration attempts, which could not be efficiently and securely managed with the initial platform.

Therefore, in 2017 a new IT platform was developed with the objective of achieving close connections between the various modules deemed necessary for proper and effective management of arbitration cases.

The main modules include web portals available to customers to begin cases, for energy operators to identify their representatives and assign them cases and for the secretariat of the Service to follow the case process and organise arbitration meetings.

Other important platform components include the system for holding meetings through a web conference within a “virtual room”, and the automated workflow that makes it possible to collect digital signatures to affix to the final report for the case.

Given that this report is legally binding for both parties, it was decided to use a certified digital signature for both parties to the arbitration, which is the only form that makes it possible to exchange digital documents online with full legal validity. To that end, the arbitrators have been provided with standard digital signature certificates, while the system provides customers and operator proxies with “one shot” signature certificates used to affix a single signature on the final report, after the necessary online recognition.

The integrated platform forwards various auxiliary forms, such as text messages serving as reminders for appointments, the interface with the IT protocol system used by AU, substitute archiving using CAD norms for all documents handled as part of the cases and the interface with the system developed by AU for external arbitrator invoices.

The Single Registration system is also integrated into the platform, for centralised registration and authentication of users (Single Sign-On) granting access to the services made available by the Consumer Office.

Through this module, it is also possible to integrate the pre-existing Customer Portal into the new platform, which collects and manages notifications and requests for support within the electricity and gas sectors related to specific issues such as bonuses, CMOR, double billing, transfers, etc.

Customers can use the same access credentials to send requests for information or support or to begin an arbitration case.

Additionally, subsequent integration with the SPID service (Public Digital Identity System) is also planned, as supported by the Agency for Digital Italy, which allows citizens and companies to access all online public administration services and companies adhering to the initiative with a single digital identity, from multiple devices.

The new arbitration platform began operating in October 2017.

In December of the same year, due to Authority resolution 900/2017, which extended services provided in availment by Acquirente Unico to the water sector, a program to adjust the IT applications used by the Consumer Office was begun, to allow users to send requests for information about water

services, requests for support regarding water bonuses, notifications and complaints regarding unresolved disputes digitally, as of 1 April 2018.

The most significant aspects will involve the Customer Portal used to present complaint cases relative to the integrated water service, along the same lines as that already created for the electricity and gas sectors prior to introduction of obligatory arbitration.

Italian Central Stockholding Entity (OCSIT)

During 2017, the technical and operating activities needed to render the IT platform operational were carried out, based on the Oracle JD Edwards Enterprise One product (JDE E1), to support fully online tenders for procurement of storage capacity and the purchase of oil products.

In February and March, historic data from storage and product tenders carried out in paper mode by OCSIT in 2014, 2015 and 2016 was loaded onto the Oracle JDE E1 Purchase Tender Module, so as to begin operations with the IT system aligned with these already completed tenders.

Subsequently, a process to revise and refine the Tenders Module was begun to implement the changes introduced by the new regulations in effect as of 2017 regarding the purchase of oil products and relative storage services. These developments involved, in particular, procedures for operators to nominate themselves, management of tenders, the tender result analysis procedure and creation of the rankings.

Before operations began, support manuals were created to assist portal users, an operating environment for “blank testing” was created, with temporary credentials for operators, as well as the presentation of the Tenders Module to operators over a two day period at AU at the end of September.

In October and November, two “blank testing” sessions were held, with the aim of allowing operators to gain confidence with the new online method of holding tenders and the awarding process. The result of these tests was positive, with excellent participation from the companies invited. The IT system was reliable and met the project specifications.

At the end of November, the Purchase Tenders Module began operating, with the first tender for storage for stock year 2018/2019.

Again relative to the Oracle JDE E1 system, it should be noted that in 2017 development maintenance was performed on the Administration/Management Module in order to adjust it to “split-payment” VAT regulations.

The “i-Sisen” and “Stocks” applications, used for statistical data relative to energy transactions within Italy and to communicate required stocks by sector operators, were involved in development maintenance projects during 2017, both in terms of technological and functional aspects.

The most important activities relative to the i-Sisen application involved the creation of new reports for the AIE (International Energy Agency), the revision of certain coal questionnaire models, updating of controls within models to avoid completion errors, the restoration of data for companies that have “ceased” and implementation of autonomous management interfaces for “static” tables for MED back office use, including a tracking mechanism to prevent and recover any errors.

The Stocks application was affected by projects to adapt it for explicit management of the OCSIT Contribution, updating of the extranet portal (mise.ocsit.it) to allow publication of registration modules used by companies, the solution to problems caused by sending confirmation emails in the case of communications involving three actors (responsible party, depot, owner other than the responsible party), changes regarding the addition of the OCSIT contribution so that communications relative to “Fixed Contribution” and “Variable Contribution” products could not be validated by the MEF.

Infrastructural changes regarding the technological solution involved updates to operating systems and application frameworks.

In particular, given that the company which distributed the operating system used in the i-Sisen and Stocks production machines had ceased to offer support, leading to a consequent lack of updates with regards to both security and applications, it was necessary to migrate the operating systems from Ubuntu version 10.04 LTS 64 to the new Ubuntu version 16.04 LTS 64 bit.

The Web server system Apache 2.2.14 and the development framework PHP 5.4.3.1 were also affected by the update of the version to guarantee adherence to the results of the most recent activities carried out relative to perimeter security and web applications.

Central systems and for IT security

In March and April of 2017, the storage infrastructure EMC2 VNX was strengthened for both of AU’s Data Centres, both the primary in Rome and the disaster recovery housed at TIM offices in Rozzano (MI).

This substantially meant increasing the storage capacity on equipment reserved for virtual infrastructure, supporting AU’s IT system applications.

In particular, at the Rome Data Centre storage capacity was increased from 62 TB to 90 TB, while at the Disaster Recovery location capacity rose from 75 TB to 100 TB.

In terms of IT security, during the first few months of the year replacement of firewall equipment was completed, used to protect the server infrastructure within the AU network.

Migration from the previous Juniper equipment to the new Palo Alto devices began in 2016, with replacement of firewall equipment located at the primary Data Centre in Rome. This activity had involved both migration of security configurations used on previous equipment and optimisation and rationalisation of existing rules.

During the initial months of 2017, the same activities were repeated at the Disaster Recovery location in Rozzano (MI), thereby completing the technological update of the firewalls.

Relative to the infrastructure of the AU central server and storage systems, in December 2017 a tender was issued for a major technological update.

In particular, the objective of these activities was to adjust the primary Data Centre and develop its virtualisation environment, based on VMware, to the most recent version, and to update the current repository used for primary backup disc copies managed by Veeam Backup & Replication software, saved on EMC2 CX3-10 storage. A further element in the strengthening and rationalisation of infrastructure consisted in the introduction of new storage expressly dedicated for the Oracle databases. Assessment of server and storage solutions available on the market adequate to the requirements imposed by the virtualisation platform, the requirements of the IT system applications and backup needs led to the selection of HPE ProLiant DL380 Gen10 server equipment, new HPE MSA 2052 storage used for backup infrastructure, replacing the by now obsolete CX3-10 and new HPE 3PAR 8200 storage using solid state drive technology (SSD), which will host the Oracle databases.

The decision to dedicate specific storage to Oracle databases was dictated by economic aspects associated with DBMS Oracle licenses, as well as by technical reasons associated with the greater speed of SSD devices with respect to traditional HDD disks. In fact, Oracle's price policy calculates the number of licenses on the basis of the number of server processors connected to the storage hosting the databases. Therefore, based on the high cost of Oracle licenses, it was more economical to use separate servers and storage for IT system applications and databases.

The tender was completed at the end of January 2018 and the new infrastructure will be operationally in June of the same year.

In July, in the context of server system security, the antivirus system was replaced, going from the Kaspersky solution to the Trend Micro platform, which provides protection created specifically for virtualised environments. A particularly interesting function of this solution, used on various occasions,

is “virtual patching” which makes it possible to protect server systems from operating system vulnerabilities before the relative updates are applied.

Prevention of IT risks

In 2017, prevention and mitigation of IT risks saw a series of important initiatives that were above all driven by the new “European Regulation protecting personal data”, better known as GDPR (General Data Protection Regulation).

The text, which was published in the Official Journal of the European Union on 4 May 2016, officially took effect on 24 May 2016 and becomes definitively applicable in all EU countries as of 25 May 2018, when perfect alignment between national regulations regarding data protection and the provisions of the Regulation must be guaranteed.

The GDPR introduces important changes to the manner in which personal data must be handled, increasing the responsibilities of those processing the data and providing for the adoption of approaches and policies that constantly take into account the risk that a given treatment could have for the rights and freedom of the interested parties.

The need to adopt “technical and organisational measures that ensure a level of security adequate to the risk” is repeatedly referenced in the document. Hence, the measures to implement for compliance with the provisions of the Regulation must be both technical, for the most part IT, as well as organisational/procedural, and must be adequate to the risk, which is analysed and assessed beforehand relative to the various categories of data handled.

In practice, the aspects of IT security to be considered when handling personal data are:

- confidentiality (that is the method used to ensure the information is not made available or revealed to unauthorised individuals, entities or processes),
- integrity (the method used to ensure the accuracy and completeness of the data is protected),
- availability (the method used to ensure the information is accessible and usable upon request by an authorised entity)

these are commonly referred to under the generic term of “IT security”.

This is the basic reason why the technical and organisational activities to be adopted to ensure compliance with the GDPR are, in fact, the same already used or to be created for IT security of all company information, regardless of their category.

In this sense, the GDPR can be seen as an opportunity for the company to verify, rationalise and strengthen its IT security measures, in a wider sense.

At the end of 2017, AU began a project with the support of a consulting company to guarantee compliance with the GDPR in terms of legal, organisational and IT aspects.

In the technical area, hardware/software systems expressly dedicated to AU IT security include backup data systems, firewall systems which block and control traffic coming from the network, antivirus software and storage systems and server virtualisation which replicates them through remote disaster recovery sites.

During 2017 these were accompanied by software, known as Password Manager Pro, for centralised management of the passwords for Data Centre equipment and control of privileged access for IT resources.

Based on their role, users may create, manage or simply access shared passwords. Passwords can be modified directly from the console and are synchronised with IT resources (systems, network equipment, Active Directory).

The person responsible for a given IT resource can give administrator (or privileged) access to other users and for a given period of time. These then directly access the Password Manager Pro interface from a remote desktop, transparently and without entering (and showing) their access credentials. The remote control session can be fully tracked (session video recording), guaranteeing a detailed audit of administration activities carried out on the central systems.

Also in 2017 software products were assessed with the objective of identifying potentially dangerous situations for data security within the IT infrastructure, both on the client and server sides.

The underlying concept was again to have tools and techniques available to identify the presence of malware that has breached the firewall, IPS and antivirus barriers and which are not openly manifested but, for example, act silently within a user work station or, worse, through server systems, allowing hackers controlling them to use IT resources for illicit purposes. These may include attacks on other systems within the company or on external websites to obtain information that can be used for commercial purposes or for blackmail.

The presence of this malicious software within IT infrastructure is not easy to detect and there have been cases of systems which were compromised and continued to operate undisturbed for years.

The market offers essentially two categories of products to fight this problem: those which analyse network traffic and those which work within the clients or servers (endpoints) to discover anomalous situations.

The first (network forensics) are non-invasive in terms of user work stations, as they essentially serve as “guardians” at network points where traffic flows and analyse traffic with machine learning tools to identify situations that may require analysis. These systems normally require a “learning” period that lasts a few weeks in order to acquire statistics about network traffic characteristics. Subsequently they are able to identify anomalous situations generated by one or more devices (e.g. traffic volumes different greatly from the norm, access to unusual websites, activity periods incompatible with working hours, behaviour of a given work station not in line with that of other work stations in the same company area, etc.).

Event detection and correlation engines should be able to identify and analyse malware and security vulnerabilities that have not yet been identified (“zero day”), common and control communications and evasion tactics that are invisible to standard security solutions.

Trend Micro’s Deep Discovery Inspector was the first product analysed in this category. Nonetheless, the test performed did not provide any particularly significant information both due to the impossibility of analysing all client traffic due to constraints imposed by the network managed by GSE and the excessively high number of false positives recorded.

A similar tool called Darktrace will be analysed towards the beginning of 2018 with the objective of analysing all network traffic, both on client and server machines.

The second category of tools (endpoint forensics) involves software (the agent) which is installed on all endpoints (PCs and servers) to be controlled, combined with a device (appliance) able to collect and analyse the information gathered by the agents.

These tools use “indicators of compromise” (IoC) to identify the presence of malicious software, by analysing the “tracks” left by malware in the endpoint that was attacked.

Identification of an IoC during an IT incident is an essential step in holistically and scientifically assessing the seriousness of the incident, and the foundation for mitigation and containment.

Indicators of compromise are provided by entities and organisations operating in the IT security field, which constantly analyse new threats and attack techniques. They can also be achieved with end users, in cases in which it is necessary to keep certain potentially dangerous situations under control.

FireEye HX was the product tested in this category. The agent was installed on a limited number of client machines and was active for around a month.

The test results were satisfactory , with a very low number of false positives, most of which were specifically created to simulate IT attacks.

The product is doubtless useful in after-the-fact analysis of breaches, even if the complexity of the information managed makes support from professional analysts necessary.

An additional aspect connected to information security frequently referenced in the European Regulation is “data masking”, a process used to ensure it is impossible to obtain the identity of the party in question.

Masking of personal data is implemented, in particular, in testing application environments which, due to their nature, have less stringent access policies than those used when fully operational, but may still contain the same information.

In this area, experiments with an interest product known as Net2000 have begun in AU.

Among data protection techniques, the Regulation refers several times to both “pseudonymisation” and “anonymisation”, as well as to encryption and cryptography.

A test using the cryptography system provided by Sophos was also carried out in AU. The cryptography system offered by ESET will also likely be assessed in the initial months of 2018.

Communication Activities

The main purpose of communication activities is to strengthen Acquirente Unico's position as a major public entity, combining consumer protection with development of energy markets.

This objective is pursued above all through constant interaction with institutions, consumer associations and businesses, through public meetings and international projects.

In terms of event organisation, with the convention "*Smart meter for smart communities*" held at the House of Representatives, Acquirente Unico brought the importance of the technological leap forward of next generation smart metering systems with the Integrated Information System serving as the central hub to the attention of representatives and institutions.

Another institutional event was the presentation of the Integrated Information System to the European Parliament as part of the Public Conference on Digital Energy (organised in collaboration with I-com) which brought the attention of the Commission and European parliament members to IIS's function as an important tool for a more efficient retail market, both on the demand and supply side, suggesting it as a European best practice.

During 2017, AU strengthened its communications with the main stakeholders, in particular consumer and trade associations, in order to inform them about the reform of the protective system activated on 1 January 2017, and involving them in the definition of the new functions to be provided by the Consumer Help Desk and the new arbitration platform. Additionally, meetings were organised on IIS issues to support both the fluidity of operating processes that involve outside businesses and the usability of tools supporting consumers.

AU also strengthened its own mission in terms of consumer protection with international projects. In particular, it is moving forward with a 36-month project (ASSIST), financed the European Commission as part of the Horizon 2020 program, together with partners from six member states, focused on fighting energy poverty and vulnerability. In addition to highlighting an issue of fundamental importance that is still relatively unexplored in Italy, AU together with RSE is developing a series of actions to actively support the most disadvantaged consumers. In order to analyse the phenomenon as completely as possible and identify effective measures, various subjects already working on the issue were involved: institutions, universities, the third sector, consumer and business associations, local entities, operators and foundations.

Press work pursued the approach already identified in previous years, providing support in the interpretation and understanding the complex world of energy, making its third party and technically-

based point of view available. A contribution which serves to increase the number of “informed voices” included in public debate. More directly, the company worked to ensure that the services AU provides to operators and consumers are well understood. This led to: 44 agency launches, 367 online articles, 219 newspaper articles and 2 journal articles. Video interviews totalled 6.

Litigation management

Credit and dispute management with respect to companies that provide the enhanced protection service

With respect to management of AU's trade receivables toward the enhanced protection service operators, in the event of a default on payment at maturity, AU intervenes, preliminarily out of court, with informal contacts and reminders, and then through the courts, with appeals for an injunction.

With respect to the nature of these receivables and the debtors, note the following.

AU's receivables derive from the sale of electricity, on the basis of the standard contract approved by Resolution ARG/elt.76/08. In November 2010, the Authority, with Resolution Arg/elt.208/10, amended the Standard Contract, introducing the obligation of the issue of a security deposit as an alternative to guarantees. By virtue of that provision, AU may write to the competent judicial authorities to secure the release of the deposit for enhanced protection service by operators/distributors that have defaulted in the release of the collateral required by Article 10 of the Standard Contract.

In the same resolution, the Authority specified that AU could apply the standard contract with respect to its counterparts, regardless of the actual signing of the contract.

The entities from which AU has overdue receivables are mainly municipalities or public capital entities holders of a distribution concession issued by the MED, against which there are remedies under the Code of Civil Procedure on the subject of enforcement proceedings.

The risk of non-collection of trade receivables by AU with respect to the enhanced- protection service operators is generally modest, either due to their nature (they are certain, liquid and payable, being regularly invoiced according to the regulatory provisions in force) and the types of legal entities liable, taking into consideration that such credits are backed by adequate guarantees. In the financial statements accruals are always required, in view of the receivables expired, in the provision for doubtful accounts, as described in the Notes.

With specific regards to legal actions undertaken to recover its receivables, during the year AU obtained an injunction against a municipality, providing enhanced protection, to release the deposit paid relative to the electricity sales contract.

Other disputes in progress

In 2017, AU was involved in a precautionary procedure with the Civil Court of Rome, following the appeal presented by a company in the context of the procedures managed by the Integrated Information System relative to the Safeguard Service. The appeal was dismissed.

In 2014, AU was involved in a hearing with the Milan Regional Administrative Court in which the ARERA resolutions governing the Indemnity System were appealed. The Court had accepted the appeal, annulling the appealed provisions. This ruling was then appealed by AU and others with the council of State which, taking into account the dismissal of the first level appeal, had in the meantime annulled the Milan Court's judgement without remand. In 2017, a consumer association contested the Council of State decision with the sixth section of the Milan Regional Administrative Court, citing AU among others. The Milan Court dismissed this appeal.

In 2017, the AU was informed of a precautionary procedure with the Milan Regional Administrative Court, brought by a Company participating in the procedure for admission to Similar Protection. With the appeal the Company challenged the ARERA provisions that governed Similar Protection and the exclusion provision issued by AU. Following the issue of the precautionary ordinance by which the Regional Administrative Court rejected the request to suspend the provision, the Company appealed to the Council of State. The Council of State dismissed this appeal.

In 2017, the AU was informed of a precautionary procedure with the Milan Regional Administrative Court, brought by a Company participating in the procedure for admission to Similar Protection. With the appeal the Company challenged the ARERA provisions that governed Similar Protection and the exclusion provision issued by AU. The Milan Court rejected the precautionary request.

Finally, in 2017 AU was informed of a dispute relative to an employee who complained of dismissal without just cause. At present, the decision has not been issued.

Tax Assessments

Following a tax audit started in the month of March 2013 and terminated in the month of July of the same year, on, respectively, 16 October and 4 November 2014, two notices of assessment were delivered to the Company for the years 2009 and 2010. In fact, the Lazio Regional Directorate of the Revenue Agency ascertained a greater IRAP taxable as a result of the rejection of the tax wedge.

Particularly, with the tax assessment for 2009, the Office settled higher IRAP of € 63,672.00 and imposed fines of the same amount (for an application amounting to € 127,344.00, excluding interest).

Regarding the 2010 tax year, the Office settled an higher IRAP of € 82,202.00 and imposed fines of the same amount (for an application in total amounting to € 164,404.00, excluding interest).

Against those two notices of assessment, the Company, on 12 December 2014, brought two separate appeals before the Provincial Tax Commission of Rome, applying for cancellation and giving the arguments already contained in the application in respect of the subsidy pursuant to article 11 of Legislative Decree 446/1997, as AU's activities are not exercised as a concession and, much less, for a "rate".

The Company, in compliance with the legal requirements, also made payments due on a provisional basis, pending the judgement of first instance, equal to one third of the tax paid in the assessment. More specifically, on 12 December 2014, it paid for 2009 € 25,047.27, and for 2010, it paid € 31,238.03.

The first level for both cases ended on 12 October 2016, with the filing of the two judgements 22860/2016 and 22861/2016, with which the Provincial Tax Commission of Rome fully accepted both of the Company's appeals.

The Office put forward two separate appeals on 29 March 2017 against these judgements with the Regional Tax Commission of Lazio. However, at the same time, considering the provisional enforceability of the first level judgements, the Office reimbursed the amounts already paid by the Company.

The appeal judgements, relative to which the Company filed specific arguments, have not yet been decided upon.

Activities of the Financial Reporting Manager

The activities carried out by the Financial Reporting Manager, as well as for issuing of formal attestation regarding the 2017 financial statements, can be summarised as follows:

- Activities to update and maintain the procedural system and IT applications associated with processes used for accounting and financial reporting, in cooperation with the interested offices;
- Preparation and issuing of the internal standard “2017 Financial Statements Circular”, containing specific rules for company departments involved in the process of preparing the annual accounts, together with the request for letters of attestation sent to the managers of the various processes (both within AU and the parent company, for the activities carried out under services agreements), relative to their areas of responsibility, to ensure proper processing and representation of the data used to prepare the financial statements and report on operations;
- Theoretical research activities, on site training for involved resources and operational implementation of amendments to the financial statement disclosure following the introduction of Legislative Decree 139 of 18 August 2015.

Activities of the Corruption Prevention and Transparency Manager

Law no. 190 of 06 November 2012 on “Measures for the prevention and repression of corruption and lawlessness in the public administration”, contains rules to prevent and curb corruption and illegality in the public administration sector, and states that transparency is an essential element for the prevention of corruption itself.

ANAC Decision no. 8 of 17 June 2015, as well as the Ministry of Economy and Finance’s Directive dated 25 August 2015, extended these measures to subsidiaries of the public administration and, therefore, to AU, a publicly held company entirely held by GSE, in turn wholly owned by the Ministry of Economy and Finance.

The 2016 ANAC PNA, approved with Resolution 831 of 3 August 2016, implements the relevant legislative changes which occurred with reference to Legislative Decree 97 of 25 May 2016 “containing the revision and simplification of provisions on prevention of corruption, publicity and transparency, correcting Law 190 of 6 November 2012 and Legislative Decree 33 of 14 March 2013, pursuant to article 7 of Law 124 of 7 August 2015, on the reorganisation of public administrations” and to Legislative Decree 50 of 18 April 2016, the Public Contracts Code.

The changes brought by Legislative Decree 97/2016 relative to transparency clarify the nature, content and approval procedures for the PNA, delimiting the subjective scope of application for the regulations, as well as redefining publication obligations on public administration websites together with the new generalised right to civil access for deeds, documents and information not subject to obligatory publication.

Additionally, Legislative Decree 97/2016 establishes that the Corruption Prevention Manager and Transparency Manager must be combined into a single role, referred to as the Corruption Prevention and Transparency Manager, and prescribes that this role be strengthened, also through organisational changes if needed.

AU has already complied with this, given that on 2 April 2015 the Board of Directors appointed the AU Corruption Prevention and Transparency Manager, effective as of 1 May 2015. The Manager, based on proven company experience, is in fact the most appropriate person within the Company to fill this role, in consideration of the requirements requested.

The powers of the Corruption Prevention and Transparency Manager were further added to with a deed of 29 January 2016, signed by the AU’s Chairman and Managing Director.

Information relative to the appointment were sent to ANAC, using the form made available by the said

Authority.

The Board of Directors appointed on 20 July 2017 confirmed the appointment of the Acquirente Unico S.p.A. Corruption Prevention and Transparency Manager on 16 October 2017, without prejudice to the indications already noted in the deeds of 22 April 2015 and 29 January 2016 for execution of the role.

During 2017, the AU Corruption Prevention and Transparency Manager mainly saw to the following:

- preparation of the 2018 update to the Three Year Corruption Prevention and Transparency Plan, approved by the BoD on 29 January 2018, published on the company website in the Transparent Company section;
- updating the Transparent Company section on the website, to ensure compliance with applicable legislation on anti-corruption and transparency;
- complying with publication requirements relative to the data and information required under current legislation, with particular reference to the completeness, clarity and updating of the information;
- protecting, through the “Whistleblower protection company procedure”, whistleblowers from any form of retaliation, discrimination or penalisation, also ensuring the confidentiality of the whistleblower’s identity. The Procedure was prepared taking ANAC recommendations and current regulations into account. During 2017 no notifications were received.
- providing specific training to employees of the “obligatory” risk areas: personnel hiring and management and non-energy purchases;
- guaranteeing the operation of Civic Access indicating, within AU’s website in the Transparent Company section, the methods and email addresses to exercise this right in terms of Simple Civic Access and Generalised Civic Access. Simple Civic Access allows anyone to request documents, data or information which administrations are required to publish. Generalised Civic Access or Freedom of Information Act - FOIA access allows anyone to request documents, data or information that go beyond those which administrations are required to publish.

In 2017, no Civic Access request was made, either in the form of Simple Civic Access or Generalised Civic Access.

RELATIONS WITH THE PARENT COMPANY AND ITS SUBSIDIARIES

Acquirente Unico is a company wholly owned by the Gestore dei Servizi Energetici - GSE S.p.A.

During 2017, AU obtained support from GSE through special service contracts, relative to leasing of its headquarters and other associated services, for the provision of IT services and assistance and consulting work on a continuous basis.

With reference to economic relationship with other subsidiaries of GSE S.p.A., in 2017 Gestore dei Mercati Energetici - GME S.p.A. continued to be Acquirente Unico's main trade counterpart.

Below are summarised the relations with the parent company GSE and with GME, in terms of the balance sheet and income statement. These schedules compare 2017 with the previous year.

Relations with GSE

The item Total Receivables, totalling € 30 thousand, as seen in Table 15, refers almost entirely to the amount of receivables deriving from chargebacks of costs associated with seconded personnel.

The item Total Payables, totalling € 200,783 thousand, refers to the loans received from the parent company, for advance payments on electricity purchases on the DAM.

Cost and revenue items are almost entirely represented by service contracts and the leasing of the real estate used as company headquarters, and recovery of expenses for personnel seconded to the parent company.

Further details are explained in the Notes to the Accounts.

Table 15: Summary of relations between Acquirente Unico and GSE S.p.A. (€ thousand)

	2017	2016	Changes
Receivables			
Non trade receivables	30	72	(42)
Receivables for infra-group VAT	-	13,107	(13,107)
Total receivables	30	13,179	(13,149)
Total	30	13,179	(13,149)
Payables			
Payables for loans - intercompany current account	200,003	-	200,003
Payables for infra-group VAT	1	-	1
Payables for service agreements and other	779	366	413
Total Payables	200,783	366	200,417
Accrued costs	-	2	(2)
Total Accrued costs	-	2	(2)
Total	200,783	368	200,415
Revenue			
Other revenues (seconded employees, etc.)	108	171	(63)
Total Revenues	108	171	(63)
Costs			
Costs for service agreement	2,999	3,169	(170)
Interest expense on intercompany bank account	61	2	59
Total Costs	3,060	3,171	(111)

Source: Internal processing, Acquirente Unico

Relations with GME

Relative to relations with GME, shown in Table 16, the main balance sheet item consists of payables relative to electricity purchases (€ 132,333 thousand), for the portion not yet financially settled. The decrease in this item amounted to € 316,037 thousand.

The main income statement item is represented by costs for purchases on the spot electricity market, equal to € 3,120,640 thousand, compared to € 1,841,930 thousand the previous year.

Table 16: Summary of relations between Acquirente Unico and GME S.p.A. (€ thousand)

	2017	2016	Changes
Prepayments	<i>€ thousand</i>		
Prepaid expenses consideration on Data Reporting Platform	1	1	-
TOTAL PREPAID EXPENSES	1	1	-
Receivables			
Receivables for other services	2	-	2
TOTAL NON-ENERGY RECEIVABLES	2	-	2
TOTAL RECEIVABLES	2	-	2
Payables			
Payables for energy purchases	132,333	448,370	(316,037)
Payables for services prompt electricity market	32,263	230	32,033
Payables for services on PCE	-	12	(12)
TOTAL ENERGY PAYABLES	164,596	448,612	(284,016)
Payables for other services	5	7	(2)
TOTAL NON-ENERGY PAYABLES	5	7	(2)
TOTAL PAYABLES	164,601	448,619	(284,018)
Costs			
Cost for purchases spot electricity market	3,120,640	1,841,930	1,278,710
Cost for purchases on forward electricity market	-	174,909	(174,909)
Cost of services spot electricity market	1,759	1,328	431
Cost of service on PCE	-	129	(129)
Cost for data reporting services (REMIT)	1	1	-
TOTAL ENERGY COSTS	3,122,400	2,018,297	1,104,103
Expenses for other services	-	35	(35)
TOTAL NON-ENERGY COSTS	-	35	(35)
TOTAL COSTS	3,122,400	2,018,332	1,104,068

Source: Internal processing, Acquirente Unico

Information about additional related parties

The Company has multiple relations with direct or indirect subsidiaries of the Ministry of Economy and Finance, which in turn holds 100% of the capital of the AU's parent company GSE. The main transactions are conducted with the major players in the Italian energy industry, such as the Enel Group, ENI and TERN. All transactions with related parties take place at market prices in accordance with the conditions that would apply to third-party counterparts.

BUSINESS OUTLOOK

Energy supply

The demand from the enhanced protection market forecast for 2018 is approximately 51 TWh.

In consideration of the fact that the Reformed Enhanced Protection was introduced as of 1 January 2017, which establishes that Acquirente Unico obtains supplies through the Spot Energy Markets (DAM and MPEG), again no physical forward contract will be stipulated in 2018.

Support activities for operators and end customers

Consumer and Conciliation Area

2018 will see the gradual extension of the Help Desk offerings to users of **water services**. As of January 2018, the Toll Free Number provides information about the water bonus, and as of April 2018 the Help Desk and Toll Free Number will handle requests for information, second level claims and the Associations help desk for all the areas governed by the Authority, while in July 2018 the optional Conciliation Service will be activated for the water sector for an initial transitional period, as established by resolution 900/2017/E/idr.

2018 will also be the year in which the Help Desk must make ready a structure able to deal with a significant increase in volumes, based on the full opening of the energy market as of July 2019, as well as an increase in Conciliation Service requests after the arbitration procedure becomes obligatory for the water sector when the transitional period ends, as established in resolution 900/2017/E/idr.

Note that the start of *third level investigation activities* (the Authority's decision making procedures) aimed at resolving disputes between end customers and operators within the sectors governed by ARERA and assigned to the Help Desk with resolution 639/2017/E/com of 21 September 2017, has been postponed until adoption of the provisions regarding the extension to the *water sector* of the protection system determined by the Authority.

Management of written complaints will serve as an alternative to conciliation for an initial transitional period to be determined after the consultation phase regarding the schedules and methods used to extend the protective system to the water sector, in particular TICO, using gradual mechanisms (resolution 900/2017/E/idr).

The Help Desk will therefore continue to strengthen its structure and skills, with the aim of optimising the services provided to new users from the water sector, as well as adjusting the Single Portal and other management operating systems, including actions to support all managers involved in disputes and ensure optimal use.

Integrated Information System

The most significant developments in IIS activity expected in 2018 mainly regard:

- Processing of aggregates for hourly consumption curves relative to electricity industry delivery points processed hourly. In 2018, starting in September, in addition to the approximately 600,000 delivery points processed hourly with 1G meters, the IIS will have to process aggregates while also considering the measurements taken every 15 minutes by 2G meters installed in the previous twelve months. At the end of 2018, around 2 million delivery points will be managed using hourly processing.
- Acquisition of hourly measurements for electricity delivery points, for which 2G meter installation is planned. The installation of new meters in 2018 should involve around 5 million delivery points.
- Implementation of switching processes in the gas sector as well, through the IIS, similar to that already developed for the electricity sector (resolution 77/2018/R/com);
- The creation of the **Offer Comparison Portal**, as established in paragraph 61 of the Annual Market and Competition Law, no. 124 of 4 August 2017. The portal in question will serve to collect and publish current offers for the retail electricity and gas sale market, in particular for domestic users, companies connected in low voltage and companies with annual consumption not exceeding 200,000 standard cubic meters). In 2017, preliminary feasibility analysis was performed, carried out parallel to and in support of the Authority, which was assigned the task of defining the provisions which govern the methods and criteria for implementation relative to that established in the cited annual competition law. The Portal will be developed progressively in various stages, also for the purpose of assessing possible subsequent adjustments and to take into account the technical complexity of its creation (Resolution 51/2018/R/com).

Following the experimentation done in 2017 to acquire consumption measurements relative to second generation meters and make them available, the technical requirements for the platform needed to process the data have been defined, featuring technologies designed for big data and next generation

communication tools typical of cloud architecture, with consequent adaptation of security and connectivity equipment. The extension involves both IIS locations and will be integrated into the new platform implemented in 2017.

During the first half of 2018 procedures to acquire new equipment are expected to begin, with the aim of completing them and beginning operations during the second half of 2018.

Moreover, the activities related to process management assigned to the Gestore, the use of technological infrastructure and the software for services supply will continue.

Retail Market Monitoring system for electricity and natural gas

For 2018, continuation of activities to support management of the collections assigned by the Authority are planned. Additionally, the progressive development of additional indicators used by the TIMR is planned, starting from information available in the IIS databases, so as to increasingly simplify collection of data provided directly by sector operators and focus AU's support activities on identifying specific phenomena and any investigations that may be necessary with the responsible parties involved.

Italian Central Stockholding Entity - OCSIT

The final months of 2017 saw continuous increases in oil product prices, following the announcement that OPEC would limit oil production. This trend continued through the start of 2018 and expectations are that this trend will continue throughout the year. This market context, which in any case sees prices in absolute terms far from the peak levels seen in 2011-2014, continues to be favourable for entities who need to accumulate stocks with a long-term view, including OCSIT.

Regarding new stock obligations, the Ministerial decree of 22 February 2018 establishes the total quantities of emergency stocks and specific stock that must be held by the system as of 1 April 2018, the day the stock year begins.

OTHER INFORMATION

Concerning the overall provision in Article 2428, paragraph 1 of the Italian Civil Code, for the description of the "principal risks and uncertainties" to which the Company could be exposed, the respective information are described in the specific chapters and sections of the Report on Operations, which sets forth the relevant content relating to the various regulatory, operational and organizational areas dealt with.

Reference should be made, in particular, to the following sections of the Report:

- The juridical-legal regulation and its implications, particularly with respect to the regulatory laws and rules applicable, are highlighted in the chapter "Regulatory elements and areas of reference". This chapter examines, more specifically, the salient regulatory aspects relative to each area of business activity;
- Any element of uncertainty concerning the Company's receivables is summarized in the section on "Credit and disputes management with respect to companies that provide the enhanced protection service" in the chapter "Litigation Management". The Explanatory Notes also show the amount of receivables, a breakdown by sub-item and provide a comparison with the previous year, as well as changes in the specific Provision for write-downs;
- In the chapter "Litigation Management", under "Other disputes in progress", there is also a description of the salient facts concerning legal disputes (other than those pertaining to the performance of the receivables) and their implications, where relevant and applicable;
- The chapter "Tax Assessments" provides information about the tax audit relative to 2008, and the relative consequences. Note that the Explanatory Notes also provide, for the sake of completeness, additional information and data about the audit in question, provided in the chapter "Information about commitments, guarantees and potential liabilities not recognised in the balance sheet";

- In the chapter on “Corporate information systems” under “Prevention of IT risk”, the equipment dedicated to physical and logistical security are briefly described, which guarantee the confidentiality, integrity and availability of corporate information, functional to preventing and containing risks that could potentially affect data. In this area, the tools used to address situations of temporary unavailability of one or more systems are briefly described, such as the sites for Disaster Recovery and Business Continuity.

With regards to the indications provided in paragraph 3 of article 2428 of the Civil Code, it should be noted that the Company does not hold, nor has it purchased or sold during the year, either through trust companies or proxies, any treasury shares or those of its parent company.

Also note that the Company did not carry out research and development activities in 2017.

Finally, note that events classifiable as “significant” after the end of the year are described in detail in the specific section of the Explanatory Notes.

FINANCIAL STATEMENTS

YEAR 2017

BALANCE SHEET

ASSETS

	Partial	Total	Partial	Total	Changes
	Dec. 31, 2017 €		Dec. 31, 2016 €		
A) UNPAID SHARE CAPITAL DUE FROM SHAREHOLDERS		-		-	-
B) FIXED ASSETS					
I. Intangible assets					
3) Industrial patents and intellectual property rights	2,605,790		2,489,451		116,339
4) Concessions, licences, trademarks and similar rights	3,246		3,939		(693)
6) Assets under construction and advances	339,788		192,869		146,919
7) Other	994,522		1,006,587		(12,065)
		3,943,346		3,692,846	250,500
II. Tangible assets					
4) Other assets	3,378,533		967,791		2,410,742
6) Specific stocks of oil products	473,564,720		296,591,966		176,972,754
		476,943,253		297,559,757	179,383,496
III. Financial Assets					
Due within 12 months			Due within 12 months		
2) Receivables:					
d bis) due from others	60,512	805,217	59,814	580,977	224,240
		805,217		580,977	224,240
Total Fixed Assets		481,691,816		301,833,580	179,858,236
Due after 12 months			Due after 12 months		
C) CURRENT ASSETS					
I. Inventories		-		-	-
II. Receivables					
1) Due from customers	766,057,422		752,636,104		13,421,318
4) Due from parent companies	30,134		13,179,267		(13,149,133)
5) Due from subsidiaries of parent companies	2,375		-		2,375
5 bis) Tax receivables	636,654		987,733		(351,079)
5 ter) Deferred tax assets	628,479		534,166		94,313
5 quater) Due from others	100,821		96,829		3,992
6) Due from Energy and Environment Services Fund	948,851		199,154		749,697
		768,404,736		767,633,253	771,483
III. Financial assets not held as fixed assets		-		-	-
IV. Cash and cash equivalents					
1) Bank and postal accounts	22,641,271		46,569,010		(23,927,739)
3) Cash and cash equivalents	4,896		3,400		1,496
		22,646,167		46,572,410	(23,926,243)
Total current assets		791,050,903		814,205,663	(23,154,760)
D) ACCRUED INCOME AND PREPAID EXPENSES					
Prepayments	340,844		122,889		217,955
Total accrued income and prepaid expenses		340,844		122,889	217,955
TOTAL ASSETS		1,273,083,563		1,116,162,132	156,921,431

LIABILITIES

	Partial	Total	Partial	Total	Changes
	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2017	
	€	€	€	€	
A) SHAREHOLDERS' EQUITY					
I. Capital	7,500,000		7,500,000		-
IV. Legal reserve	1,116,491		1,109,411		7,080
VI. Other reserves:					
- Extraordinary reserve	-		-		
IX. Profit for the year	247,685		141,607		106,078
Total shareholders' equity	8,864,176		8,751,018		113,158
B) PROVISIONS FOR RISKS AND CHARGES					
2) Taxes including deferred liabilities	114,080		126,293		(12,213)
4) other	1,504,919		1,347,179		157,740
Total provisions for risks and charges	1,618,999		1,473,472		145,527
C) EMPLOYEE SEVERANCE INDEMNITY	572,604		558,436		14,168
<i>Due after 12 months</i>			<i>Due after 12 months</i>		
D) PAYABLES					
4) Due to banks:					
a) short term	189,293,575		89,665,392		99,628,183
b) medium and long term	473,294,369		296,850,000		176,444,369
7) Due to suppliers	82,412,751		258,402,478		(175,989,727)
11) Due to parent companies	200,782,614		365,539		200,417,075
11 bis) Due to subsidiaries of parent companies	164,600,590		448,618,831		(284,018,241)
12) Tax payables	359,652		334,484		25,168
13) Payables to social security institutions	682,657		572,413		110,244
14) Other payables	10,542,285		10,515,998		26,287
15) Due to Energy and Environment Services Fund	140,042,019		41,747		140,000,272
Total payables	1,262,010,512		1,105,366,882		156,643,630
E) ACCRUED COSTS AND DEFERRED INCOME					
Accrued costs	17,272		12,324		4,948
Total accrued costs and deferred income	17,272		12,324		4,948
Total liabilities	1,264,219,387		1,107,411,114		156,808,273
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,273,083,563		1,116,162,132		156,921,431

INCOME STATEMENT

INCOME STATEMENT

	Partial	Total	Partial	Total	Changes
	2017		2016		
	€		€		
A) PRODUCTION VALUE					
1) Revenues from sales and services:					
a) revenues from the sale of electricity	3,755,017,998		3,549,682,246		205,335,752
b) other energy-related revenues	38,512,135		26,852,691		11,659,444
c) revenues to cover non-energy operating costs	32,435,337		25,778,864		6,656,473
		3,825,965,470		3,602,313,801	223,651,669
5) Other revenues and income:					
a) contingent assets related to energy	118,519,695		151,868,300		(33,348,605)
b) income and other revenues	726,849		724,289		2,560
		119,246,544		152,592,589	(33,346,045)
Total production value		3,945,212,014		3,754,906,390	190,305,624
B) PRODUCTION COSTS					
6) For Raw materials, supplies, consumables and goods:					
a) energy purchases on the electricity market	3,120,639,863		2,016,838,916		1,103,800,947
b) energy purchases bilateral contracts	-		715,113,347		(715,113,347)
c) unbalancing fees	45,069,378		28,666,155		16,403,223
d) other energy purchases	1,734,504		852,407		882,097
e) other	26,591		22,666		3,925
		3,167,470,336		2,761,493,491	405,976,845
7) For services:					
a) dispatching and services related to energy	617,792,424		807,201,017		(189,408,593)
b) sundry services	8,312,506		8,446,696		(134,190)
		626,104,930		815,647,713	(189,542,783)
8) For Use of third party assets					
a) storage	14,104,515		8,216,943		5,887,572
b) other	1,718,318		1,575,851		142,467
		15,822,833		9,792,794	6,030,039
9) For personnel:					
a) wages & salaries	9,944,744		9,388,277		556,467
b) social security contributions	2,707,888		2,562,904		144,984
c) termination indemnities	682,957		658,600		24,357
e) other costs	434,121		288,768		145,353
		13,769,710		12,898,549	871,161
10) Amortisation, depreciation and write-downs:					
a) amortization of intangible assets	2,250,815		2,004,929		245,886
b) depreciation of tangible asset	470,419		354,689		115,730
d) write-downs of receivables in current assets and cash and cash equivalents	249,520		-		249,520
		2,970,754		2,359,618	611,136
14) Other operating costs:					
a) Contingent liabilities related to energy	118,519,695		151,868,300		(33,348,605)
b) other charges	248,353		505,155		(256,802)
		118,768,048		152,373,455	(33,605,407)
Total production costs		3,944,906,611		3,754,565,620	190,340,991
Difference between value and production costs (A-B)		305,403		340,770	(35,367)
C) FINANCIAL INCOME AND EXPENSES					
16) Other financial income:					
a) long term receivables	964		1,010		(46)
d) other income	5,755,508		2,764,107		2,991,401
		5,756,472		2,765,117	2,991,355
17) Interest and other financial expenses:					
a) to parent company	61,210		2,002		59,208
b) other	5,627,102		2,782,592		2,844,510
		5,688,312		2,784,594	2,903,718
Total financial income and expenses		68,160		(19,477)	87,637
D) VALUE ADJUSTMENT					
FINANCIAL ASSETS					
Total value adjustment of financial assets		-		-	-
Profit before taxes (A-B+C+D)		373,563		321,293	52,270
20) Income taxes, current, deferred and prepaid					
a) current taxes	258,964		315,086		(56,122)
b) taxes relative to previous years	(26,560)		(83,582)		57,022
c) deferred tax liabilities and assets	(106,526)		(51,818)		(54,708)
		125,878		179,686	(53,808)
21) Profit for the year		247,685		141,607	106,078

STATEMENT OF CASH FLOWS

€	2017	2016
A. Cash flows from operating activities		
Net income	247,685	141,607
Income taxes	125,878	179,686
Interest expense	5,688,312	2,784,594
(Interest income)	(5,756,472)	(2,765,117)
(Capital gains)/capital losses deriving from disposal of assets	-	9,286
1. Profit (loss) for the year before income taxes, interest, dividends and capital gain/losses on sale of assets	305,403	350,056
<i>Adjustments for non-cash items that had no counterpart in the net working capital</i>		
Allocations to provisions	1,504,919	1,347,179
Employee termination benefits	682,957	658,600
Depreciation of fixed assets	2,721,234	2,359,618
Other adjustments to non-cash items	-	-
Total adjustment to non-cash items	4,909,110	4,365,397
2. Cash flow before changes in net working capital	5,214,513	4,715,453
<i>Change in net working capital</i>		
- Decrease (increase) in amounts due from customers	(13,456,258)	(14,589,155)
- Decrease (increase) in amounts due from parent company	13,149,133	(8,051,294)
- Decrease (increase) in amounts due from subsidiaries of parent companies	(2,375)	-
- Decrease (increase) in amounts due from Electricity Sector Adjustment Fund	(749,697)	4,434,871
- Decrease (increase) in prepayments and accrued income	(217,955)	16,144
- Increase (decrease) in amounts due to suppliers	(176,263,120)	172,006,714
- Increase (decrease) in amounts due to parent company	414,335	38,406
- Increase (decrease) in amounts due to subsidiaries of parent companies	(284,018,241)	(181,707,316)
- Increase (decrease) in amounts due to Energy and Environment Services Fund	272	(292,974)
- Increase (decrease) in accrued costs and deferred income	4,948	3,039
- Other changes in net working capital	101,586	388,629
Total changes in net working capital	(461,037,372)	(27,752,936)
3. Cash flow after changes in net working capital	(455,822,859)	(23,037,483)
<i>Other adjustments</i>		
Interest received	5,791,412	2,805,588
(Interest paid)	(5,330,446)	(2,966,595)
(Income tax paid)	174,797	(201,924)
(Use of provisions)	(2,015,968)	(2,006,967)
Total other adjustments (other receipts/payments)	(1,380,205)	(2,369,898)
Cash flows from operating activities (A)	(457,203,064)	(25,407,381)
B. Cash flows from investment		
- (investments) divestments in property, plant and equipment	(179,853,915)	(112,102,762)
- Increase/(decrease) in amounts due to suppliers for property, plant and equipment	245,774	4,522
- (investments) divestments in intangible assets	(2,501,315)	(2,422,853)
- Increase/(decrease) in amounts due to suppliers for intangible assets	27,618	103,105
- (investments) divestments in financial fixed assets	(224,240)	(255,281)
Cash flows from investments (B)	(182,306,078)	(114,673,269)
C. Cash flow from financing		
<i>Third-party funding</i>		
Increase (decrease) in short-term borrowing from banks	99,270,317	63,664,411
Increase (decrease) in short-term amounts due to Energy and Environment Services Fund	140,000,000	-
Increase (decrease) in short-term borrowing from parent companies	200,002,740	-
Receipt (repayment) of medium-long term loans from banks	176,444,369	112,000,000
<i>Own funds</i>		
(Dividends and advances on dividends paid)	(134,527)	(311,449)
Cash flow from lending activities (C)	615,582,899	175,352,962
Increase (decrease) in cash (A+B+C)	(23,926,243)	35,272,312
Cash at January 1	46,572,410	11,300,098
of which:		
bank and postal accounts	46,569,010	11,296,097
cheques		
cash and cash equivalents	3,400	4,001
Cash on December 31	22,646,167	46,572,410
of which:		
bank and postal accounts	22,641,271	46,569,010
cheques		
cash and cash equivalents	4,896	3,400
Total cash flows (A+B+C)	(23,926,243)	35,272,312

EXPLANATORY NOTES

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The structure and content, as well as the classification of items in the balance sheet, income statement, statement of cash flows and explanatory notes, are compliant with that established under Legislative Decree 139 of 18 August 2015 and, in particular with the lay-out indicated under Articles 2424, 2424-bis, 2425, 2425-bis and 2425-ter of the Civil Code, as well as OIC (Italian Accounting Body) Documents 10 and 12.

As established under Article 2423, paragraph 6 of the Civil Code, the financial statements were prepared in units of euro, without decimal places, while in the explanatory notes, in compliance with current regulations, values are expressed in thousands of euro.

All asset and liability items at 31 December 2017 are presented alongside the corresponding amounts for the previous year, in accordance with article 2423-ter, paragraph 5 of the Civil Code.

During the year, no exceptional cases occurred which made it necessary to make use of derogations pursuant to article 2423, paragraph 5 of the Civil Code. Financial statement items were measured in compliance with the provisions of Article 2426 of the Civil Code.

For a better representation of the equity, financial and economic position of the Company, the reclassified balance sheet and income statement have been prepared in summary form accompanying the report on operations. Are also provided all the information deemed necessary to give a true and fair representation, even if not specifically required by law. In compliance with the provisions of Article 2423-ter (Structure of the balance sheet and income statement), some items in the accounts have been appropriately adapted and added.

The most significant accounting standards adopted for preparing the financial statements at 31 December 2017, as well as with regards to the content and changes in the relative individual items are outlined below.

A specific section in these Explanatory Notes outlines, pursuant to that established in Article 2423, paragraph 4, the criteria used by the Company to implement the provision established in the same paragraph (definition of insignificance of the effects of any deformity).

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

For the preparation of the 2017 financial statements, the measurement criteria set forth in article 2426 of the Civil Code have been adopted, interpreted and supplemented by the accounting standards prepared and issued by the Italian Accounting Body (OIC).

Note that, pursuant to article 12, paragraph 2 of Legislative Decree 139/2015, in the previous year the Company made use of the right to not apply the amortised cost criteria and discounting of receivables and payables arising prior to 1 January 2016 which had not yet exhausted their effects within the financial statements (OIC 15 and 19).

Intangible assets

Intangible assets are recognised at purchase cost, including any accessory charges, pursuant to article 2426, paragraph 1 of the Civil Code, and systematically amortised each year on a straight-line basis.

The item “Industrial patent and intellectual property rights” is amortized over an estimated useful life of three years.

Concessions, licenses, trademarks and similar rights are amortized over a period of ten years.

The item "other intangible assets" is amortized over the period of expected future use of three years, except for the sub-item represented by the so-called up-front fee on the loan granted in 2014, intended for the purchase of OCSIT stock products. This fee, paid in a lump sum, is amortised on a straight-line basis over the duration of the loan (five years).

In the event that, regardless of previously recorded amortization, there is an impairment loss, the asset is written down correspondingly. If in subsequent years the reasons that justified the write-down cease to apply, the asset is returned to its original value, up to the value that the asset would have had if the impairment loss had never taken place.

Tangible Assets

OCSIT specific stock of products are classified as Tangible Assets as they are held on a long-term basis.

They are recognised at purchase cost, net of any write-downs for impairment loss. In the presence of a drop in current oil prices, the loss of value is generally assumed to be not permanent, in that the possible realization of the stocks would arise presumably, only in situations of extreme severity and, in particular, in the event of serious shortage of oil resources, which suggests a reasonably presumed related rise in prices. In case, should the realizable value of OCSIT stocks be, anyway, lower than the value shown in the accounts, the negative difference would in any case be fully covered, in accordance with article 1, paragraph 8 of MED Decree of 1 January 2014 (so called Official Guideline).

Tangible assets relating to Other assets are stated at acquisition cost, also including accessory charges directly attributable, and are depreciated each year on a straight-line basis using rates that are determined in relation to their possible residual utility. In particular:

- Fixed client PCs and laptops are depreciated over a three-year period;
- Other assets are depreciated over a five-year period.

If there is an impairment loss, regardless of the previously recorded depreciation, the asset is written down correspondingly. If in subsequent years the reasons that justified the write-down cease to apply, the asset will be restored to its original value up to the value that the asset would have had if the impairment loss had never taken place.

The costs of ordinary maintenance, as not affecting the level or the potential use of the assets, are charged to the income statement in the year they are incurred. However, maintenance costs with an incremental value are allocated to the related assets and depreciated over the residual useful life of the assets.

Financial assets

Financial assets refer to Receivables due from employees for amounts loaned in accordance with the current contractual regulation. The item is recognised at its nominal value, in that effects deriving from the application of the amortised cost criteria are irrelevant, taking the time factor into account.

Receivables and payables

Receivables are recognised using the amortised cost criteria, taking the time factor into account as well as the presumable realisable value. Receivables are shown net of any provision for write-downs on receivables, appropriate determined to express their presumable realisable value. They are classified according to their nature and purpose, under “Financial fixed assets” or “Current assets”.

Payables are recognised using the amortised cost criteria, taking the time factor into account, that coincide with the nominal value in the absence of transaction costs and implicit financial components.

Medium and long-term payables are an exception, for which the company opted in financial year 2016, for the first time application of the provisions introduced in Legislative Decree 139 of 18 August 2015, to make use of the option to not apply the amortised cost method retrospectively.

Cash and cash equivalents

Cash and cash equivalents at the end of the year are indicated at their nominal value.

Accruals and deferrals

They are determined according to the accrual basis.

Provisions for risks and charges

Provisions for risks and charges include costs and charges of a specific nature, certain or likely, but for which, at year end, the amount and/or the date of occurrence are undetermined. The provisions reflect the best possible estimate based on the information available. Risks for which the emergence of a liability appears merely possible are indicated in specific notes.

Employee severance indemnity

This is established in compliance with laws and labour contracts in force and reflects the liabilities accrued in respect of all employees at the balance sheet date, net of advances paid under the law, as well as amounts paid in supplementary pensions. Following the entry into force of Law 296 of 27 December 2006 (2007 Financial Law), the Employee severance indemnity is also reduced for the amounts transferred to the Treasury Fund set up with INPS (the Italian State Social Security Entity) and other additional social security funds.

Revenues and Costs

They are recognised in accordance with the principle of prudence and economic attribution and are net of rebates and discounts. Revenue from services and the sale of goods are recognised when the service is supplied or on transfer of ownership of the goods.

Revenues and costs relating to the purchase and sale of electricity are supplemented with appropriate accounting estimates, based on the provisions of the law and the Authority in force during the period in question. These estimates, which are typical of the activities carried out by the Company, are the result of calculations performed by the technical and commercial departments based on available information, including by comparison with the main counterparts.

With reference to the purchase and sale of electricity and related services, the application of the legislation referable to AU, as well as the general principles of proper accounting for accruals and correlation between revenues and expenses, involving the achievement of equivalence, by means of appropriate accounting estimates, between revenues and corresponding costs. The coverage of the costs of the purchase and sale of energy complies, in particular, with the provisions of the following standards:

- Article 4, paragraph 6, of Legislative Decree No. 79/99, which provides that the balance of the accounts is ensured by AU. The principle of balancing of AU has been, among other things, referred to by Article 4 of the Decree of the Minister of Productive Activities of 19 December 2003;
- Article 11.3, annex A to the Authority for Electricity and Gas Resolution 156/07 which, in stipulating that the criteria for determining the price of electricity sold to operators of the enhanced protection service, establishes, in substance, that AU should cover its own operational costs in terms of managing energy related activities.

As far as revenues covering operating costs regards the accounting is done:

- Assuming accounting equilibrium between revenues covering costs and related costs, in accordance with the applicable laws on the matter;
- Assuming the existence of official acts of the supervisory authorities that enable the recognition of an accrual basis of the fees and their amount, based on the principle of reasonable certainty of the maturation of the same fees (on a case by case, they may be the acts that approve the final statement or, waiting for these, the acts which formally authorize the budget for the year, as long as the final balance is kept within the limits of the budget itself).

Income taxes

Current taxes on income are recognised with a balancing of payables/tax receivables, net advance payments and withholdings, based on the estimated taxable income, determined in accordance with the provisions in force and taking into account the applicable tax benefits and credits.

In application of OIC document no. 25, if the requirements are met, deferred and prepaid taxes are recorded based on temporary differences between gross statutory profit and taxable income.

If the recalculation shows a prepaid tax charge, it is recorded in the accounts among deferred tax assets only to the extent that there is reasonable certainty of its future recovery.

Conversion criteria for items in other currencies

Assets and liabilities originally expressed in another currency are converted in the financial statements at the exchange rate in effect at the time of the transaction. Effects of any conversions to exchange rates at the end of the year are entirely irrelevant.

System for keeping separate accounting records for economic and equity items relative to the Integrated Information System (IIS) and the Italian Central Stockholding Entity (OCSIT)

As established in the Authority's Resolution Arg/com/201/10, in reference to the IIS, and in Legislative Decree 249 of 31.12.2012, relative to OCSIT, AU has adopted specific systems to ensure distinct accounting for the economic and equity items relative to the IIS and OCSIT, as if their business was performed by a separate entity.

More specifically, based on appropriate methodological models approved by senior management, AU prepares special separate annual accounts for the IIS and OCSIT, to be submitted to the regulators (ARERA and MISE), respectively for IIS within 60 days of the approval of the annual financial statements, and for OCSIT within 90 days of the approval of the annual financial statements.

The separate annual accounts comprise, in summary, the following reports:

- The balance sheet;
- The income statement;
- Accounting details and comments in the notes on the criteria and methodologies adopted.

Regarding the financial reporting information that pertains to Acquirente Unico S.p.A. and more directly related to the activities under accounting separation, the following points are noted:

- In specific chapters of the Report on Operations, there is summary information regarding the development and management of the IIS and OCSIT;
- In one table, which is also included in the Report on Operations, the costs of operating AU S.p.A., are broken down by macro-area of activities. This table specifically shows operating costs attributed, by economic attribution, to the IIS and to OCSIT;
- A comment of the respective tables of the notes to these financial statements shows separately, where relevant and significant, the amounts of the balance sheet and income items relating to business under accounting separation.

Specifically, amounts are reported for OCSIT stocks products, recorded within Tangible Assets and the related financing granted for the purchase of the same stocks, recorded in the Payable due to banks.

Information about commitments, guarantees and potential liabilities not recognised in the balance sheet

Pursuant to that established in article 2427, point 9 of the Civil Code, below is the total amount of commitments, guarantees and potential liabilities not recognised in the balance sheet.

Commitments - € 31,027 thousand

This item shows future commitments deriving from the stipulation of contracts to store oil products owned by OCSIT, relative to the 2018-2020 period.

Collateral and personal guarantees received – € 1,341,246 thousand

The item mainly refers to the sureties, totalling a guaranteed amount of € 1,339,978 thousand, issued in favour of AU, by banks or parent company, in the interest of the companies providing the enhanced protection service for which the Company invoices energy.

These sureties, issued pursuant to article 10 of the contract for the sale of electricity between AU and the companies operating the enhanced protection service, as updated by the Authority's Resolution ARG/n Elt. 208/10, guarantee AU's receivables due from the companies operating the enhanced protection service, for an amount of no less than 1/6 of the annual cost, including VAT, sustained by each operator in the previous calendar year to supply energy to its customers on the protected market.

In this context is mentioned the surety of € 1,150,000 thousand at 31.12.2017, issued in favour of AU by ENEL S.p.A., guaranteeing the obligations arising from the contract for the sale of electricity.

The item also includes the guarantees provided by the suppliers of goods and services other than energy, amounting to € 96 thousand, to guarantee payment of the obligations defined in the contracts with AU.

Finally, it also includes mortgages on real estate, with a total guaranteed of € 1,172 thousand, issued by employees against the provision of loans by the Company for purchase of their first home.

Potential liabilities - € 392 thousand

As also described in the Report on Operations, as a result of the tax audit initiated in March 2013, ending at the end of July of the same year, on 16 October and 4 November 2014 the Company received two notices of assessment respectively for the years 2009 and 2010, with which the Lazio Regional Directorate of the Revenue Agency ascertained greater IRAP taxable, denying that the tax wedge subsidy was applicable.

Specifically, with the assessments pertaining to 2009 and 2010, the Office dismissed a higher IRAP and penalties totalling approximately € 300 thousand (excluding interest) for the two years.

Against those two notices of assessment, the Company, on 12 December 2014, brought two separate appeals before the Provincial Tax Commission of Rome, applying for cancellation and giving the arguments already contained in the application presented in 2014 on the subject in question, in respect of the subsidy pursuant to article 11 of Legislative Decree 446/1997, as AU's activities are not exercised as a concession and, much less, for a "rate".

The Company, in compliance with the legal requirements, also made payments due on a provisional basis, equal to one third of the tax levied in the notice of assessment.

With the two rulings 22860/2016 and 22861/2016, both filed on 12 October 2016, the Provincial Tax Commission of Rome upheld the Company's appeals.

The Office put forward two separate appeals on 29 March 2017 against these judgements with the Regional Tax Commission of Lazio. However, at the same time, considering the provisional enforceability of the first level judgements, the Office reimbursed the amounts already paid by the Company.

The appeal judgements, relative to which the Company filed specific arguments, have not yet been decided upon.

Total risk, which can be expressed as a potential liability at 31 December 2017, amounts to around € 327 thousand, in terms of maximum amounts due. This amount has not been accounted for as a provision to specific provisions for risks, given that the risk of tax in question was recently reiterated by the Company's tax advisers as being possible, but not probable.

Additionally, we note that a labour law appeal was received in August 2017 for which risk is considered merely possible and not probable.

The potential impact of this risk can be quantified at around € 65 thousand but, without the required aspect of probability, cannot lead to provisions in the financial statements.

More specifically, the decision not to establish a special provision for risks derives from that established in article 2424-bis, paragraph 3 of Civil Code, interpreted in the light of the reference accounting standards.

Information pursuant to Article 2423, paragraph 4

Below the criteria used by the Company to implement the provision contained in Article 2423, paragraph 4 are illustrated, with particular regards to the definition of irrelevance of the effects of any deformity.

In particular, the significance of the relevance of the fundamental qualitative characteristics necessary to guarantee the utility of the information provided in the annual financial statements is explained.

Given that relevance is understood to be a specification of the concept of significance, information is relevant if its omission or imprecise representation is able to influence the decisions that potential users make on the basis of the annual financial statements, whether they are internal (company bodies, management) or external (stakeholders). More specifically, relevance is an aspect that must be related to the specific company providing accounting information, based upon the nature or size (or both) of the element to which the information refers, in the context of the specific annual financial statements for the individual company. Therefore, relevance depends upon the amount and nature of the omission or error based upon the specific circumstances. The amount or nature of the information, or a combination of both, may be the determining factor.

Given that it is for the most part quantitative, the determination of relevance is expressed through specific threshold parameters, in order to determine whether, in relation to a financial statement element, an error or omission has enough influence on the level of information and news provided by the financial statements, considering their nature and the circumstances in question. This determination requires that parameters be determined in a relativistic manner, looking at the size of the company and its characteristics.

The operating context of Acquirente Unico (AU) is outlined in relation to the following variables:

- compliance with legal operational conditions, in the light of the fact that legal and regulatory provisions do not allow for “free” determination of profit for the year;

- the characteristics of the business performed and operating dimensions;
- the interests of the stakeholders most worthy of attention and protection.

In this context and in the light of the current management conditions, the following threshold parameters are identified:

- total operating revenues (for energy sales to operators within the enhanced protection service, etc.): reference value 0.1%;
- operating costs (personnel expense; external services, such as consulting or similar; expenses relative to company bodies; general expenses and for company logistics, etc.): reference value 2.5%;
- Balance sheet value of technical fixed assets consisting of stocks of petroleum products: reference value 0.5%;
- gross financial debt: reference value 0.5%;
- shareholders' equity: reference value 1%.

In order to identify the acceptable margin of error, in terms of irrelevance, two types of factors are considered:

- the amount of the individual error (measurement of tolerable non-compliance for an individual case);
- the amount of the cumulative error, that is the maximum acceptable distortion of the sum, or simultaneous presence of multiple errors, provided that they relate to different cases (sum of the amount of all the events/cases of non-compliance).

In the first case (specific margin of error), the maximum amount is equal to the average of the values achieved in a given year of the 5 parameters proposed. In the second case (total margin of error), the maximum tolerance is equal to the sum of the values achieved in each of the parameters considered.

Proposal for the allocation of profits

The proposal for the allocation of the profits for 2017 (€ 248 thousand), to be submitted to the attention of the Company's Shareholders' Meeting for approval, is as follows:

- 5% of profits to the Legal Reserve, in the amount of € 12 thousand;
- 95 % of profits as dividends to be paid to the Shareholder, in the amount of € 236 thousand.

Subsequent events

As of 1 January 2018, AU/OCSIT took over the functions and tasks, as well as the legal relationships, both payable and receivable, of the former Cassa Conguaglio GPL, which was eliminated. This occurred, in accordance with article 1, paragraph 106 of the cited Law 124 of 4 August 2017 (Annual Market and Competition Law) which, among other things, transferred the permanent employees of the aforementioned Cassa to OCSIT. With the same provision, ownership of the Fund for rationalisation of the fuel distribution network was also transferred, pursuant to article 6 of Legislative Decree 32 of 11 February 1998, which involves charges for the execution of the activity, so as to ensure economic, equity and financial independence for said activities, with respect to the other tasks performed by OCSIT. The activities transferred were carried out on the basis of operational guidelines issued by the Ministry of Economic Development and will cease when the financial resources of the cited Fund are exhausted.

At the beginning of February, Acquirente Unico, after verifying legitimacy and feasibility, obtained authorisation from the competent authorities to issue a bond loan not to exceed € 600 million and with a maturity not to exceed 10 years, to be used to acquire specific stocks as envisaged in the OCSIT business plan. This allowed it to begin preparatory activities for the transaction already in progress in 2018 and in time for the maturity of the existing debts, which will occur in 2019.

BALANCE SHEET

ASSETS:

UNPAID SHARE CAPITAL DUE FROM SHAREHOLDERS

At 31 December 2017 the item had a zero balance.

FIXED ASSETS – € 481,692 thousand

Intangible assets - € 3,943 thousand

The analysis of this item and changes during the year are as follows:

€ thousand

	Industrial patent and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets under construction and advances	Other	Total
Balance as at Dec. 31, 2016					
Original cost	7,865	10	193	3,560	11,628
Amortization	(5,376)	(6)	-	(2,553)	(7,935)
Balance as at Dec. 31, 2016	2,489	4	193	1,007	3,693
Movements of year 2017					
Increases	1,613	-	340	548	2,501
Entering services	193	-	(193)	-	-
Amortization	(1,690)	(1)	-	(560)	(2,251)
Net divestments	-	-	-	-	-
Balance of changes in 2017	116	(1)	147	(12)	250
Balance as at Dec. 31, 2017					
Original cost	9,671	10	340	4,108	14,129
Accumulated amortisation	(7,066)	(7)	-	(3,113)	(10,186)
Balance as at Dec. 31, 2017	2,605	3	340	995	3,943

The item “Industrial patents and intellectual property rights” for € 2,605 thousand relates to basic and specific software application packages, with the related evolutionary maintenance.

Increases registered during the year (€ 1,613 thousand) are mainly due to investments made by the Integrated Information System, to develop new functions associated with the implementation of the

System itself and for the software component associated with the extension and development of the technological platform.

Further increases during the year are due to the purchase of software licenses for database management and virtualisation of systems, for licenses acquired to create the OCSIT IT system and, finally, for licenses for various software products, mainly used to manage IT infrastructure and IT security.

Concessions, licenses, trademarks and similar rights (€ 3 thousand) mainly include the costs incurred by the Company for registration of the OCSIT trademark.

Assets under construction, for € 340 thousand, relate almost exclusively to projects not yet completed relative to the Integrated Information System.

Other intangible assets, equal to € 995 thousand, include the residual value of the upfront commission for the medium-term loan, granted to purchase OCSIT petroleum product stocks (€ 525 thousand).

It also relates to the application software of the computer operating system, developed for the specific needs of AU and related customisation, mainly for the following features:

- trading on the electronic Power Exchange;
- demands prediction;
- calculation and prediction of sales prices;
- CRM systems, Operators Portal, Customers Portal and Arbitration Platform to manage requests presented by consumers;
- platforms for handling statistics in the energy sector and relative to mandatory stocks;
- the Oracle JD Edwards system for managing OCSIT operating processes.

The increases during the year (€ 548 thousand) relate primarily to the following activities:

- creation of an integrated IT platform to manage conciliation cases;
- integration of the Client Portal with the new conciliation platform;
- personalisation of the Oracle JD Edwards system to manage online tenders to procure storage capacity and purchase petroleum products;
- evolutionary maintenance of Stocks and i-Sisen applications, to manage and monitor oil stock requirements and statistics in the energy sector;

- adjustment of the Energy Retail system deriving from participation in the MPEG market;
- strengthening of the consumption and price forecasting systems with new forecast models.

Tangible assets - € 476,944 thousand

The table below indicates the amount and changes in the item.

€ thousand

	OCSIT specific stocks	Other assets	Total
Position as at Dec. 31, 2016			
Original cost	296,778	3,223	300,001
Accumulated depreciation	-	(2,255)	(2,255)
Decreases	(186)	-	(186)
Balance as at Dec. 31, 2016	296,592	968	297,560
Movements of year 2017			
Increases	176,973	2,881	179,854
Depreciation	-	(470)	(470)
Balance of changes in 2017	176,973	2,411	179,384
Position as at Dec. 31, 2017			
Original cost	473,565	6,104	479,669
Accumulated depreciation	-	(2,725)	(2,725)
Balance as at Dec. 31, 2017	473,565	3,379	476,944

The item primarily relates to the value of year-end stocks of oil products for OCSIT, considered as a long-term investment (€ 473,565 thousand).

With reference to OCSIT stocks, increases, which totalled € 176,973 thousand, consist of purchases made during the year in the amount of additional four stock days.

Again during 2017, no decreases in the value of stocks was seen, consequent to natural declines in that, as of 1 January 2016, the Company decided to make use of a different type of contract option, as a consequence of which these declines were treated as costs for accessory storage services (declines fee), so as to not create stock changes.

Considering the loan contract granted to purchase OCSIT stocks, it should be noted, in compliance with article 2447-decies of the Civil Code, that income deriving from the sale of the stocks in question is bound exclusively for use to repay the aforementioned loan, as established in article 2447-bis, paragraph 1, letter b) of the Civil Code. Under this loan agreement, the beneficiary AU has undertaken not to create or permit the existence of any encumbrance on the stocks in question.

In any case, the sale of OCSIT stocks can occur only with the prior authorization by the governing Authority; should the realization value of said stocks be different from the value recorded in the

financial statements, the positive difference shall be granted to cover OCSIT costs and expenses, while the negative difference will be fully covered by the contribution under article 7, para. 4 and 5 of Legislative Decree 249/2012, in accordance with article 1, paragraph 8 of Med Decree dated 31 January 2014 (Official Guideline).

The valuation at 31 December 2017 of the stocks in question, analysed by type of product and with the indication of their quantities, is set forth in a separate table of the Report on Operations.

In compliance with the provisions under Article 2426, point 10 of the Civil Code, the difference is set forth in the following table between the book value of stocks in question, by category of goods, and current value at the end of the year.

OCSIT PRODUCT STOCKS- DIFFERENCES BETWEEN THE BOOK VALUE AT 31 DECEMBER 2017 AND MARKET PRICE VALUE

€ thousand

	Carrying cost	Values at market prices at Dec. 31, 2017	Differences
- Gasoline – Super Unleaded	104,760	102,394	(2,366)
- Automotive gasoil	314,100	343,804	29,704
- Jet fuel	48,305	53,809	5,504
- Fuel oil BTZ	6,400	7,433	1,033
Total	473,565	507,440	33,875

The difference that can be deduced from the table, of € 33,875 thousand, can be attributed to the recovery of oil product prices which especially was seen during the final months of the year, due to developments in the international geopolitical context.

In any case, it is held that these differences, even in the case of a negative difference, that is a value at market prices less than the amount recognised in the financial statements, do not have a permanent nature, such as to give rise to write-downs, as given their peculiar nature of "strategic" stocks any sale would be expected only in situations of extreme need, for lack of oil supplies, which therefore makes it reasonable to assume that the realizable value would be not less than the historic value.

If, by hypothesis, the realisation value was lower than the value recognised, coverage would in any case be guaranteed under the MED Official Guideline cited above.

The item Other assets, equal to € 3,379 thousand, mainly refers to the extension and development of the IIS technological platform and other hardware assets associated with the Integrated Information System.

This also includes the cost of hardware for user workstations, such as desktop PCs, mobile PCs and accessories, and the hardware composing the AU's IT infrastructure, which is mainly composed of servers, mass storage devices and security systems.

The increases in 2017, equal to € 2,881 thousand, are for the most part associated with investments made by the IIS and, to a lesser degree, to strengthen AU's IT infrastructure.

Financial fixed assets – € 805 thousand

Receivables due from others – € 805 thousand

This item includes loans made to employees in accordance with the applicable contractual provisions (first home purchase, important family needs, etc.), for an amount of € 805 thousand.

The detailed table, inserted to complete the presentation of the assets, shows the amount of receivables due within and beyond five years.

CURRENT ASSETS – € 791,392 thousand

RECEIVABLES– € 768,405 thousand

The indication of amounts due within and beyond 5 years is shown in the table inserted, to complete comment of assets.

Receivables due from customers – € 766,057 thousand

The breakdown of this item is shown in the following table:

€ thousand			
	Dec. 31, 2017	Dec. 31, 2016	Changes
Receivables for selling electricity to enhanced protection service operators	750,808	743,385	7,423
Receivables from enhanced protection operators for Integrated Information System fees (IIS) - protected electricity market	438	524	(86)
Receivables due from dispatch users for Integrated Information System fees (IIS) - open market	396	384	12
Receivables from gas operators for Integrated Information system fees	608	550	58
Receivables due from companies selling electricity to domestic consumers to cover IIS costs for RAI fee management	247	-	247
Receivables from oil operators to cover OCSIT costs	9,812	5,366	4,446
Receivables due from Terna for unbalance fees	3,660	2,123	1,537
Accrued interest on arrears	540	575	(35)
Total trade receivables	766,509	752,907	13,602
Provision for write-downs on receivables	(452)	(271)	(181)
Total	766,057	752,636	13,421

The item mainly refers to the receivable for the sale of electricity to companies providing the enhanced protection service (€ 750,808 thousand). This amount is mainly due to the accrual of the receivables related to November and December 2017. In relation to this credit, invoices are issued respectively in the months of January and February 2018. Almost all of these invoices have been collected at the date these Notes were prepared.

The item also includes: receivables from Terna for balancing fees (€ 3,660 thousand); receivables from oil operators for contributions to cover the costs of OCSIT (€ 9,812 thousand); receivables from

contributions to cover the costs of the Integrated Information System, for the portion pertaining to the enhanced protection service operators in the electricity sector (€ 438 thousand), for the users of the electricity dispatching service (€ 396 thousand), for the portion pertaining to gas sector operators (€ 608 thousand) and, additionally, receivables due from companies selling electricity to domestic customers to cover charges for the Integrated Information System for the RAI fee (€ 247 thousand); finally, receivables associated with interest on arrears for late payments (€ 540 thousand).

The item "Receivables for electricity sales to enhanced protection operators" is adjusted and integrated relative to adjustments to be carried out, according to the accrual principle. These findings are reported on the basis of the best estimates prepared by AU offices, in compliance with the Authority's resolutions.

The amount of receivables due from customers is net of the provision for write-downs on receivables (€ 452 thousand), to align them with the presumed realisable value.

This alignment follows an examination of the positions with regard to the enhanced protection service operators overdue at the end of the year, taking into account the extent to which they are overdue, issuing of guarantees, instigation of lawsuits, etc.

With respect to the end of the previous year, the provision in question saw the following changes.

Provision for write-downs on receivables

<u>€ thousand</u>	Amount
Provision as at Dec. 31, 2016	271
Used	(68)
Provisions	249
Provision as at Dec. 31, 2017	<u>452</u>

The increase in the overall item with respect to the previous year (€ 13,421 thousand), is mainly due to the increase in receivables due from enhanced protection service operators (€ 7,423 thousand) and the increase in receivables due from oil operators to cover OCSIT charges (€ 4,446 thousand).

Receivables due from parent companies – € 30 thousand

The item mainly consists of receivables for other services (€ 30 thousand).

The trend in the last two years of the sub-items mentioned above can be taken from the following table.

€ thousand

	Dec. 31, 2017	Dec. 31, 2016	Changes
Due from parent companies:			
- VAT on credit	-	13,107	(13,107)
- Sundry services	30	72	(42)
Total	30	13,179	(13,149)

With respect to the previous year, the item decreased overall, equal to € 13,149 thousand, essentially due to a lack of VAT credit relative to the parent company, following the change in the VAT regime (split payment) which AU must follow (effective as of 1 July 2017).

Receivables due from subsidiaries of parent companies - € 2 thousand

This item essentially consists of receivables for other services due from GME (€ 2 thousand).

Tax receivables – € 637 thousand

The item is entered net of current tax liabilities, which amount to € 259 thousand. It also includes IRES and IRAP receivables for taxes paid in previous years for € 433 thousand.

The € 351 decrease in the item compared to 2016 is mainly due to the decrease in advances liquidated with respect to the previous year.

Deferred tax assets – € 629 thousand

The item includes deferred tax assets against temporary differences that can be deducted in future years, associated with fees to directors not yet paid (for solely IRES), amortisation/depreciation exceeding the deductible portion (for solely IRES), provisions for employee bonuses (both for IRES and IRAP) and provisions for redundancy incentives (for both IRES and IRAP).

This item is recognised to the extent that future recovery is reasonably certain. It increased over the previous year (€ 95 thousand).

Changes in deferred tax assets are shown in the table below:

<i>€ thousand</i>	IRES	IRAP	Total
Deferred tax assets at Dec. 31, 2016	470	64	534
Decreases	(332)	(65)	(397)
Increases	419	73	492
Deferred tax assets at Dec. 31, 2017	557	72	629

The decreases refer to the reversal of deferred tax assets:

- for the portion of fees to directors paid during the year (€ 7 thousand, solely for IRES purposes);
- to the recovery of amortisation/depreciation not deducted in previous years (€ 2 thousand, solely for IRES purposes);
- to pay productivity bonuses accrued and not deducted in 2016 (€ 323 thousand for IRES purposes and € 65 thousand for IRAP purposes).

The increases refer to temporary differences that can be deducted in future years, relative:

- to the portion of directors fees not paid during the year (€ 7 thousand, solely for IRES purposes);
- to the portion of amortisation/depreciation exceeding the portion deductible for tax purposes (€ 51 thousand, solely for IRES purposes);
- to the provision for employee bonuses not paid during 2017 (€ 345 thousand for IRES purposes and € 70 thousand for IRAP purposes);
- to the provision for redundancy bonuses (€ 16 thousand for IRES purposes and € 3 thousand for IRAP purposes).

The table below shows amounts and changes (increases and decreases) in temporary differences deductible during the year to which deferred tax assets refer, broken down by macrotype. These latter are calculated using the rates in force (24% for IRES, 4.82% for IRAP, as foreseeable for the period in which said differences will presumably be passed on), to the extent provided by current law (see article 2427, point 14, Civil Code).

€ thousand

Deductible temporary differences	Taxes	2016	Increases	Decreases	2017
Directors' fees	Ires	41	28	(28)	41
Excess amortisation/depreciation	IRES	600	213	(9)	804
Employee bonuses	IRES/IRAP	1,319	1,437	(1,347)	1,409
Provision for redundancy incentives	IRES/IRAP	-	68	-	68
Total		1,960	1,746	(1,384)	2,322

Receivables due from others – € 101 thousand

The following is a detailed breakdown of the item and changes over the previous year:

€ thousand

	Dec. 31, 2017	Dec. 31, 2016	Changes
Advances to suppliers	3	1	2
Receivables from seconded personnel - ARERA	29	65	(36)
Other	69	31	38
Total	101	97	4

The amount remained substantially stable with respect to the previous year.

Receivables due from Energy and Environment Services Fund (CSEA) – € 949 thousand

The item essentially relates to the amount accrued for fees, to be collected through the Energy and Environment Services Fund, aimed at covering the operating costs of activities carried out in avallment of ARERA (Consumer Help Desk, Conciliation Service and Retail Market Monitoring).

The breakdown of this item is shown in the following table:

€ thousand

	Dec. 31, 2017	Dec. 31, 2016	Changes
Receivables from CSEA:			
- Help desk	434	-	434
- Retail Monitoring	22	11	11
- Settlement service	255	78	177
- Other	238	110	128
Total	949	199	750

The item increased by € 750 thousand relative to the previous year, mainly due to the postponing of the amount received during the first few months of 2018 for receivables relative to December 2017 from the following areas: Consumer Help Desk (€ 434 thousand), Arbitration Service (€ 255 thousand) and Retail Monitoring (€ 22 thousand).

CASH AND CASH EQUIVALENTS - € 22,646 thousand

The breakdown of the item is shown in the following schedule:

<i>€ thousand</i>			
	Dec. 31, 2017	Dec. 31, 2017	Changes
Bank accounts	22,641	46,569	(23,928)
Cash and cash equivalents	5	3	2
Total	22,646	46,572	(23,926)

The item bank accounts refer to liquid funds available at the end of the year, within the current accounts held by AU with credit companies on the same date. Most of these, equal to € 19,207 thousand, are substantially associated with receipts deriving from the enhanced protection service. The remaining amount includes both OCSIT and IIS bank accounts. More specifically, OCSIT deposits, totalling € 3,071 thousand, include € 438 thousand in security deposits issued by certain operators for prequalification for tenders, as an alternative to a bank surety, € 34 thousand for the amount of the loan intended for purchasing specific stocks but not yet used as of the reporting date, with the residual amount, equal to € 2,599 thousand, associated with deposits in the various sub-bank accounts held by OCSIT. IIS bank deposits IIS total € 283 thousand.

IIS and OCSIT bank deposits are identified separately and used within the context of the unbundling administrative/accounting and management system adopted.

The item also includes the balance of security deposits issued by certain enhanced protection service operators and in this case, provided as an alternative to bank sureties (€ 80 thousand).

The decrease in this item over 2016 reflects more accurate planning of requirements at the end and start of the year relative to the electricity market (DAM), after new regulations for financial settlement of electricity purchases took full effect, which at December 2016 had just begun.

ACCRUED INCOME AND PREPAID EXPENSES – € 341 thousand

This item consists of prepaid expenses relative to insurance, postage, fees for technical support for software, hardware maintenance, etc.

Compared to 2016, this item increased, by € 218 thousand.

Article 2427, in paragraph 6 includes the indication for each item, in the amount of the receivables with a residual duration exceeding five years, broken down by geographical area.

The table below provides a breakdown of receivables in relation to the maturity period:

€ thousand

	Within 12 months	From 2 to 5 years	Over 5 years	Total
Receivables under financial assets				
Due from others	61	222	522	805
Total financial receivables	61	222	522	805
Current receivables				
Due from customers	766,057	-	-	766,057
Due from parent company	30	-	-	30
Due from subsidiaries of parent companies	2	-	-	2
Tax receivables	637	-	-	637
Deferred tax assets	629	-	-	629
Due from others	101	-	-	101
Due from CSEA	949	-	-	949
Total current receivables	768,405	-	-	768,405
TOTAL	768,466	222	522	769,210

Amounts due after a year relate to the portion of loans disbursed to employees, recognised under the item financial fixed assets.

It should be noted that all claims due are from national counterparts.

TOTAL ASSETS – €1,273,084 thousand

LIABILITIES:

SHAREHOLDERS' EQUITY – € 8,864 thousand

Movements in Shareholders' equity during 2017 are shown in the following table:

<i>€ thousand</i>					
	Share capital	Legal reserve	Other reserves	Profit for the year	Total
Balance as at Dec. 31, 2015	7,500	1,099	125	196	8,920
Destination of profits 2015:					
- legal reserve	-	10	-	(10)	-
- dividend distribution	-	-	-	(186)	(186)
Extraordinary reserve distribution	-	-	(125)	-	(125)
Result of the year 2016					
- Profit for the year	-	-	-	142	142
Balance as at Dec. 31, 2016	7,500	1,109	-	142	8,751
Destination of profits 2016:					
- legal reserve	-	7	-	(7)	-
- dividend distribution	-	-	-	(135)	(135)
Result of the year 2017					
- Profit for the year	-	-	-	248	248
Balance as at Dec. 31, 2017	7,500	1,116	-	248	8,864

With respect to the individual components of shareholders' equity, is shown also an analysis by origin, the possible use and the amount available:

<i>€ thousand</i>				
Nature/Description	Amount	Possible use	Amount available	
Share Capital	7,500			
Legal Reserve	1,116	B	1,116	
Total	8,616		1,116	

Key: A) for share capital increase; B) to cover losses; C) for distribution to shareholders

It is also reported that in the years from 2015 to 2017, reserves were distributed for a total amount of € 1,042 thousand.

Share capital – € 7,500 thousand

The value of the share capital, which is fully paid, equals € 7,500 thousand and is represented by 7,500 thousand ordinary shares of nominal value of € 1.

Legal reserve – € 1,116 thousand

Profit for the year – € 248 thousand

The account represents the net profit for 2017.

PROVISIONS FOR RISKS AND CHARGES – € 1,619 thousand

Provision for taxes, including deferred liabilities – € 114 thousand

The provision includes accrual of deferred tax liabilities, against temporary differences taxable for IRES purposes correlated with interest on arrears.

Changes in the provision for deferred tax liabilities are shown in the following table:

<u>€ thousand</u>	Amount
Provision as at Dec. 31, 2016	126
Used	(42)
Provisions	30
Provision as at Dec. 31, 2017	<u>114</u>

Utilisations refer to the reversal of deferred taxes relative to the portion of interest on arrears collected during the year (€ 42 thousand).

Provisions refer to temporary differences taxable in subsequent years, relative to interest on arrears accruing during the year but not yet collected (€ 30 thousand).

The table below shows the changes (increases and decreases) of temporary differences taxable during the year, relative to deferred taxes. These are calculated using the rates in force (24% - IRES, as foreseeable for the period in which said differences will presumably be passed on), to the extent provided for under current law (see Article 2427, paragraph 14, Civil Code).

€ thousand

Taxable temporary differences	Taxes	2016	Increases	Decreases	2017
Late Interest on arrears	IRES	527	126	(177)	476
Total		527	126	(177)	476

Other provisions – € 1,505 thousand

The item refers to the following provisions:

- Provision for bonuses (€ 1,437 thousand), which includes costs recognised on the basis of the accrual principle. The provision in question includes charges for variable bonuses (MBO) for Company top management and employees (senior managers and middle managers). It also relates to the estimated cost for the corporate performance bonus (PRA) and the una-tantum amount for employees. All costs are related to the year 2017.

The changes in the provision in question are represented in the following table:

€ thousand

	Amount
Provision as at Dec. 31, 2016	1,347
Used	(1,347)
Provisions	1,437
Provision as at Dec. 31, 2017	1,437

Accruals are the result of the best estimates made by the competent offices of the Company, in compliance with the accrual basis criteria. They pertain to the objectives and results relating to 2017, based on the accrual basis principle.

- Provision for redundancy incentives (€ 68 thousand), the allocation made in 2017, regards the charge for consensual early termination of the employment relationship.

EMPLOYEE SEVERANCE INDEMNITY – € 573 thousand

The changes of the item during the year 2017 are detailed as follows:

<i>€ thousand</i>	
Balance as at Dec. 31, 2016	559
Provisions	682
Used	(3)
Other movements	(665)
Total as at Dec. 31, 2017	573

The provision covers all entitlements to severance benefits accrued through 31 December 2017 for employees, due by law.

Other changes include the portion of the additional contribution of 0.50% under article 3 of Law 297/82, for the employees' share of Severance Indemnity pay transferred to supplementary pension funds (FONDENEL and FOPEN), and the amount accrued in the year and transferred to the Treasury Fund set up with INPS.

PAYABLES – € 1,262,011 thousand

Payables due to banks– € 662,588 thousand

The breakdown is as follows:

€ thousand			
	Dec. 31, 2017	Dec. 31, 2016	Changes
Due to banks:			
- short term	189,293	89,665	99,628
- medium and long term	473,295	296,850	176,445
Total	662,588	386,515	276,073

The sub-items are composed as follows:

- short-term liabilities – € 189,293 thousand. This amount, which shows an increase of € 99,628 thousand compared to 31 December 2016, mainly refers to the amount of the loans with fixed maturity ("hot money" transactions", for € 180,000 thousand, and current account overdrafts, essentially associated with OCSIT, for € 8,910 thousand. Hot money contracts, besides being generally more advantageous with respect to current account overdrafts, more specifically have allowed AU to fully benefit from the favourable conditions available on the market at the end of the year, thereby obtaining rates payable very near to or at zero. The significant increase in short-term payables seen with respect to the previous year is associated with the financial deficit which accumulated during 2017 as a consequence of misalignments correlated with the introduction of new settlement schedules for DAM energy purchases, which in December 2016 had just begun. The amount also includes the payable relative to the fee for non use (commitment fee), equal to € 355 thousand, relative to sums not yet used from the new € 400 million loan intended for OCSIT. Short-term payables also include a limited amount for ascertainment of interest to be liquidated (€ 28 thousand);
- medium and long-term payables (€ 473,295 thousand) refer to utilisations of two loans taken out by AU for OCSIT functions in 2014 and 2017 to acquire a total of 10 days of specific stocks.

The increase in the payable with respect to the previous year is entirely attributable to the expense to acquire oil products for 4 stock days, which occurred during the year. The requirements were drawn

from the second loan granted to AU/OCSIT by the two entities (a major Italian credit institution and a temporary business consortium consisting of major financial institutions), awarded two different portions of the loan as a whole, equal to € 400 million. As in the case of the first loan, the competitive tender mechanism allowed OCSIT to obtain all of the needed amounts at competitive rates.

It should also be noted that the loan was not subject to personal or real guarantees in favour of the financial institutions, with the exception of an escrow account, to which any proceeds deriving from the sales of the stocks in question will be transferred.

With reference to medium and long-term payables, note that the Company, as referenced in the criteria used to prepare the financial statements, made use of the right to not apply the amortised cost criteria for the first OCSIT loan, taken out in 2014. The second OCSIT loan, which was taken out during the year in question, was instead recognised in accordance with the amortised cost criteria, as envisaged in the accounting standards in effect (OIC 19), net of up front fees, notary expenses and accessory expenses associated with stipulation of the contract.

Payables due to suppliers – € 82,413 thousand

The item in question is separated from trade payables due to GME, a subsidiary of the parent company GSE. In order to adequately represent the full amount payables existing at 31 December 2017 for items relative to energy, relative to both GME and other counterparts, an additional reconciliation schedule is provided below.

It should also be pointed out that payables pertaining to relations with GSE are recorded under Due to parent companies.

The item, which shows a decrease of € 175,989 thousand with respect to the previous year, is broken down into three sub-items. The classification shown below is intended to provide separate representation, in terms of the debtor profile, of electricity supply activities (to which, as already noted, must be added payables due to GME), with respect to OCSIT operations and other payables due to suppliers.

- **Payables for purchases of energy and related services - € 78,504 thousand**

The item includes payables due against invoices already received or to be received at 31 December 2017, as a whole relating to the purchase of energy and related services, through the various supply channels used by the Company. The same item includes all payables due to energy, with the exception of those relative to GME.

The details of the various components are summarized in the tables below, providing a comparison with the corresponding figures from 2016.

€ thousand			
	Dec. 31, 2017	Dec. 31, 2016	Changes
Payables for energy purchases - bilateral contracts	-	119,187	(119,187)
Payables for extra grid purchases of electricity and other	122	317	(195)
Payables to Terna for dispatching and other energy-related services	78,382	136,176	(57,794)
Total	78,504	255,680	(177,176)

Payables recorded mainly relate to costs incurred attributable to November and December 2017.

The item shows a decrease of € 177,176 thousand, mainly associated with the lack of payables for purchases made through bilateral contracts during the year (€ -119,187 thousand).

- **Payables for purchases of oil products and storage services – € 985 thousand**

This item refers to the amount to be settled relative to invoices received and to be received, relative to petroleum product stock storage services provided by depots, accruing during the year and maturing in months after 31 December 2017. The item increased from the previous year by an amount of € 569 thousand.

Other – € 2,924 thousand

€ thousand

	Dec. 31, 2017	Dec. 31, 2016	Changes
Payables to advisers and suppliers for invoices to be settled	916	656	260
Payables to advisers and suppliers for invoices to be received	2,008	1,650	358
Total	2,924	2,306	618

The item includes the amounts of payables due to other suppliers and consultants, for invoices already received and to be settled, as well with respect to invoices to be received at the reporting date. This item increased with respect to the previous year by € 618 thousand.

Payables due to subsidiaries of parent companies - € 164,601 thousand

€ thousand

	Dec. 31, 2017	Dec. 31, 2016	Changes
Payables to GME for energy purchases	132,333	448,370	(316,037)
Payables to GME for energy-related services	32,263	242	32,021
Payables to GME for various debit notes	5	7	(2)
Total	164,601	448,619	(284,018)

The item refers to existing payables due to GME, almost entirely consisting of payables relative to purchases of electricity and correlated services.

Note that the total amount of payables due to GME shows a decrease of € 284,018 thousand at the end of 2017, mainly due to the decrease in the sub-item Payables for energy purchases.

As previously specified, to adequately represent the overall phenomenon of current payables associated with energy industry transactions (also for services), below is a reconciliation table, not relative to a specific Balance Sheet item. The table indicates total payables relative to energy components which, in the obligatory statutory schedule, are broken down into two distinct items.

Payables due to suppliers for energy components

€ thousand

	Dec. 31, 2017	Dec. 31, 2016	Changes
Payables for energy purchases - bilateral contracts	-	119,187	(119,187)
Payables for extra grid purchases of electricity and other	122	317	(195)
Payables to Terna for dispatching and other energy-related services	78,382	136,176	(57,794)
Payables to GME for energy purchases	132,333	448,370	(316,037)
Payables to GME for energy-related services	32,263	242	32,021
Total	243,100	704,292	(461,192)

Payables due to parent companies – € 200,783 thousand

The breakdown is as follows:

€ thousand

	Dec. 31, 2017	Dec. 31, 2016	Changes
Due to parent companies:			
- for intercompany current account loan - loan	200,000	-	200,000
- for intercompany current account loan - interest	3	-	3
- for VAT due	1	-	1
- for sundry services	779	366	413
Total	200,783	366	200,417

The item increased by € 200,417 thousand compared to the previous year. The increase mainly derives from payables relative to the loan provided by the parent company in the intercompany current account.

The amount refers to a short-term loan granted by GSE at prevailing market rates, in virtue of the intercompany current account agreement formalised in October 2016. The amount was not present at the end of the previous year, given that, as already noted, the requirements in question arose during 2017 as a consequence of the misalignment deriving from new settlement schedules for DAM energy purchases which began to be implemented on 1 December 2016.

Tax payables – € 360 thousand

The item, which consists primarily of amounts due to the tax authorities for withholdings on employee wages, increased by € 25 thousand with respect to 31 December 2016. Note that current tax liabilities, totalling € 259 thousand, have been deducted from the tax credits.

Payables to social security institutions –€ 682 thousand

The item is detailed in the following table:

€ thousand			
	Dec. 31, 2017	Dec. 31, 2016	Changes
Payables to INPS	512	451	61
Other payables	170	121	49
Total	682	572	110

The item includes payables relating to contributions paid by the Company, levied on wages paid, on charges that accrued and were not paid to personnel for holidays accrued but not taken, overtime and other allowances, as well as deductions from employees.

The item increased from the previous year by an amount of € 110 thousand.

Other payables – € 10,542 thousand

The breakdown is as follows:

€ thousand			
	Dec. 31, 2017	Dec. 31, 2016	Changes
Payables to employees and assimilated	439	369	70
Advance payments for operating fees subsequent years - Energy area	275	926	(651)
Advance payments for operating fees subsequent years - IIS	3,243	4,128	(885)
Advance payments for operating fees subsequent years - OCSIT	4,587	3,000	1,587
Advance payments for operating fees subsequent years - Availment activities (Consumer Help Desk, Settlement Service and Retail Monitoring)	1,425	1,030	395
Non-interest bearing deposits released by enhanced protection service operators and for participation in OCSIT tenders	516	1,063	(547)
Other minor payables	57	-	57
Total	10,542	10,516	26

This item, which increased by € 26 thousand as compared to the previous year, pertains to the share of the fees to cover operating costs, already invoiced or collected in advance in 2017 but pertaining to future years. This amount has been broken down by specific area of activity. More specifically:

- € 275 thousand pertains to the difference between the consideration for energy area operating costs, approved in advance for 2017, and the amount quantifiable as the definitive fee for the same year, based on the determination of the rate of return before taxes on shareholders' equity;
- € 3,243 thousand indicates the difference between the amount of revenues accruing at 31 December. 31, 2017 covering the operating expense of the Integrated Information System and the corresponding amount of costs accrued, measured in line with the unbundling model adopted. This surplus will be used to supplement sums related to future years;
- € 4,587 thousand indicates the difference between revenues accrued to cover OCSIT operating costs in 2017, and the related amount of the charges accrued during the same period;
- € 1,425 thousand indicates the difference between the amount of fees received in 2017 against costs for activities provided in availment (Consumer Help Desk, Conciliation Service and Retail Monitoring) and the corresponding amount of final costs accruing during the same year.

Additionally, the item includes payables recognised against non-interest bearing security deposits issued in favour of AU by certain enhanced protection service operators (€ 81 thousand) and the security deposit guaranteeing participation in OCSIT tenders (€ 435 thousand), totalling € 516 thousand, and payables due to employees (€ 439 thousand).

Payables due to Energy and Environment Services Fund (CSEA) – € 140,042 thousand

The item Payables due to Energy and Environment Services Fund (CSEA) increased by € 140,000 thousand as compared to the previous year, as outlined below:

- *Advances paid by CSEA for DAM electricity purchases* equal to € 140,000 thousand. This is financial assistance provided by CSEA, following an agreement which saw its structure approved by the Authority with a specific resolution (822/2016/R/EEL of 29 December 2016). This assistance was necessary to allow AU to deal with the temporal misalignment between incoming and outgoing cash flows following amendments made to the payment terms on the Day Ahead Market which took effect as of 1 December 2016;

- *Other payables due to the Fund for Energy and Environment Services (CSEA) for € 42 thousand against amounts to be recognised, in the Account for equalisation of costs to buy and dispatch electricity for the enhanced protection service.*

ACCRUED COSTS AND DEFERRED INCOME – € 17 thousand

The item relates only to accrued costs of € 17 thousand, mainly related to costs for solidarity contributions to FISDE. The item increased by € 5 thousand with respect to the previous year.

Regarding the breakdown of payables in relation to their maturity, note that all payables recorded in the balance sheet will expire within a year, except for the medium-term financing for OCSIT which matures at 30 June 2019 in the amount of € 296,850 thousand and for 31 March 2022 in the amount of € 176,445 thousand.

The following table shows the breakdown of the debts of the Company by geographic area.

€ thousand

Payables by geographic area	ITALY	OTHER EU COUNTRIES	REST OF EUROPE	TOTAL
Due to banks	662,588	-	-	662,588
Due to suppliers	82,291	-	122	82,413
Due to parent companies	200,783	-	-	200,783
Due to subsidiaries of parent companies	164,601	-	-	164,601
Tax payables	360	-	-	360
Payables to social security institutions	682	-	-	682
Other payables	10,542	-	-	10,542
Payables to CSEA	140,042	-	-	140,042
TOTAL DEBITS	1,261,889	-	122	1,262,011

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES - €1,273,084 thousand

INCOME STATEMENT

PRODUCTION VALUE – € 3,945,212 thousand

Revenues from sales and services – € 3,825,965 thousand

The item includes the sub-items described below.

It should be noted that revenues earned are recorded exclusively against national counterparts.

a) Revenues from the sale of electricity - € 3,755,018 thousand

This item pertains to revenues from the sale of energy for companies providing the enhanced protection service, attributable to 2017, inclusive of the accruals for the amounts invoiced in the first two months of 2018, attributable to November and December 2017. The amount is adjusted and supplemented by accruals for adjustment components. Relative to 2016, there has been an increase of € 205,336 thousand, with the performance being related, as also mentioned in the Report on Operations, to the performance in 2017 of the overall costs of electricity supply, including the burden of dispatching services and similar.

b) Other revenues related to energy – € 38,512 thousand

The item pertains to the components detailed in the following table, which shows the changes relative to the previous year.

<i>€ thousand</i>			
	2017	2016	Changes
- Revenues for balancing fees	36,659	24,604	12,055
- Revenues for non arbitrage fees	1,188	1,574	(386)
- Revenue from so called "extra grid" sales	665	675	(10)
Total	38,512	26,853	11,659

Compared to the previous year, the item as a whole saw an increase of € 11,659 thousand.

c) Revenues to cover non-energy operating costs - € 32,435 thousand

The items includes the fees to cover the costs of operation of the various types of business activities. In particular, this means, based on the case, fees paid by the Energy and Environment Services Fund, or invoiced directly to operators who are debtors, in relation to the type of activities performed.

It is noted that the amount invoiced to the enhanced protection service providers, to cover operating costs in the area of energy, is included under revenues from the sale of electricity, as it is not separately charged from the economic components of the cost for the purchase of energy and related services.

€ thousand

	2017	2016	Changes
- Coverage of costs - Energy consumer help desk	5,333	7,983	(2,650)
- Coverage of costs - Retail monitoring	194	244	(50)
- Coverage of costs - Arbitration Service	2,512	762	1,750
- Coverage of costs - IIS	8,034	6,727	1,307
- Coverage of costs - OCSIT	16,362	10,063	6,299
Total	32,435	25,779	6,656

This item increased by € 6,656 thousand over the previous year, mainly due to the increase in fees for coverage of the IIS, Conciliation Service and OCSIT.

Other revenues and income – € 119,247 thousand

The item pertains to the sub-items described below.

a) Contingent assets related to energy – € 118,520 thousand

The item pertains to the economic effects of adjustments related to energy, for the period 2012 (and earlier) - 2016, defined on the basis of assessments made by the technical departments of the Company, based on the information available.

The table below shows the relevant sub-items, with detail of the types and timing for generation of their accountability, as well as changes from the previous year.

€ thousand

	2017	2016	Changes
<u>Year 2012 and earlier</u>			
- load profiling adjustment and various TERNAL	9,880	20,850	(10,970)
- load profiling adjustment and various - enhanced protection operators	-	5,095	(5,095)
- general adjustment	2	66	(64)
Total	9,882	26,011	(16,129)
<u>Year 2013</u>			
- load profiling adjustment and various TERNAL	4,094	11,782	(7,688)
- general adjustment	-	2	(2)
Total	4,094	11,784	(7,690)
<u>Year 2014</u>			
- load profiling adjustment and various TERNAL	6,867	16,880	(10,013)
- general adjustment	-	2	(2)
Total	6,867	16,882	(10,015)
<u>Year 2015</u>			
- load profiling adjustment and various TERNAL	3,769	3,305	464
- load profiling adjustment and various - enhanced protection operators	1,063	93,885	(92,822)
- general adjustment	-	1	(1)
Total	4,832	97,191	(92,359)
<u>Year 2016</u>			
- load profiling adjustment, dispatching, imbalance, etc. - TERNAL	18,883	-	18,883
- load profiling adjustment operators additional safeguards	73,962	-	73,962
Total	92,845	-	92,845
Total	118,520	151,868	(33,348)

b) Income and other revenues – € 727 thousand

The item includes the components detailed in the table below, with evidence of the relevant changes that occurred relative to 2017.

€ thousand

	2017	2016	Changes
Reimbursement costs seconded personnel	242	375	(133)
Other Income and revenue	104	13	91
Contingent assets - release from provision for write-downs on receivables	68	190	(122)
Contingent assets non-energy	313	146	167
Total	727	724	3

This item increased by € 3 thousand compared to the previous year.

PRODUCTION COSTS – € 3,944,907 thousand

For raw materials, supplies, consumables and goods – € 3,167,470 thousand

These pertain mainly to costs for the purchase of energy through the various channels of supply that AU uses in compliance with the reference regulatory framework (€ 3,167,443 thousand).

The item includes purchases non related to energy (consumables, stationery, etc.) for a residual amount of € 27 thousand.

The schedule below shows a more detailed breakdown of costs for the purchase of electricity by type of supply, indicating specific changes relative to the previous year. Details pertaining to the amount of energy transacted are fully described in the related sections of the Report on operations.

€ thousand

	2017	2016	Changes
Cost purchase of energy			
Purchase of energy on the electricity market	3,120,640	2,016,839	1,103,801
Costs for electricity purchases - bilateral contracts	-	715,113	(715,113)
Balancing fees for consumption units TERNA	45,069	28,666	16,403
Other purchases of energy			
"Extra grid" purchases and other	665	675	(10)
Non arbitrage fees	1,069	178	891
Total	3,167,443	2,761,471	405,972

Overall costs for purchase of electricity increased by € 405,972 thousand with respect to 2016. Note that the main counterpart represented is GME, for purchases of energy on the spot electricity market, for a total amount of € 3,120,640 thousand. This supply item saw an increase of € 1,103,801 thousand over the previous year.

Costs for services – € 626,105 thousand

The item primarily includes charges for services related to energy (dispatching and others), amounting to € 617,792 thousand, plus costs for various services, which amounted to € 8,313 thousand.

Charges for services pertaining to energy have been mainly charged by Terna S.p.A. (€ 616,032 thousand). Details on individual items in the cost of services related to energy are set forth in the following prospectus, with comparison with the previous year. These services saw a total decrease with respect to the previous year (€ -189,409 thousand), mainly due to a decrease in uplift charges (€ -100,103 thousand) and the decrease in the cost of essential system security units (UESS) (€ -80,901 thousand).

€ thousand	2017	2016	Changes
Cost of dispatching:	611,856	801,489	(189,633)
Consideration Procurement Resources Service in the Market for Dispatching UPLIFT	430,536	530,639	(100,103)
Consideration Coverage of costs of the essential units for Security System UESS	64,272	145,173	(80,901)
Consideration Coverage of Costs entered for Operation DIS	21,734	22,890	(1,156)
Availability of the Production Capacity CD	37,515	35,721	1,794
Consideration cover costs Remuneration of Service Load Interruptibility INT	56,627	65,894	(9,267)
Contribution to AEEGSI Decision 232/2015/A	1,172	1,172	-
Other services related to energy:	5,936	5,712	224
Consideration to cover costs for wind production Modulation Res. 5/10 AEEG - TERNA	2,386	1,658	728
Costs for aggregate measures for withdrawal TERNA	1,790	2,596	(806)
Costs for GME operations	1,759	1,328	431
Costs for services from GME on electricity platform (PCE)	-	129	(129)
Costs for services from GME for data reporting pursuant to REMIT regulation	1	1	-
Total	617,792	807,201	(189,409)

With reference to the trend for total costs to purchase electricity and related services, the increase of € 216,563 thousand seen in the tables below, can be attributed to the combined effect of the reduction in transactions of physical quantities (-3,194,100 MWh, -5.53% with respect to the previous year) and the increase in the average unit purchase cost, including services (7.58 €/MWh, corresponding to a 12.28% change with respect to 2016).

Table 3. Costs for supplying Electricity (€ thousand)

	2017	2016	Change	Change %
Costs for supplying energy	3,785,235	3,568,672	216,563	6.07%

Source: Internal processing, Acquirente Unico.

Table 4. Change in benchmark purchase costs

	2017	2016	Change	Change %
Quantity in MWh	54,606,800	57,801,700	(3,194,900)	-5.53%
Unit cost (€/MWh)	69.32	61.74	7.58	12.28%

Source: Internal processing, Acquirente Unico.

Costs for other services, amounting to € 8,313 thousand, may be summarized as follows:

€ thousand

	2017	2016	Changes
Service contracts with parent company	1,361	1,667	(306)
Services managed through parent company	1,048	1,054	(6)
Directors fee	174	174	-
Statutory auditors fee	43	43	-
Supervisory board D.Lgs.231/01 fee	31	34	(3)
Compensation for Independent auditors	41	41	-
Fees for technical, legal and notarial and administrative consulting	670	674	(4)
Maintenance and IT services	2,633	2,750	(117)
Communication fees	161	191	(30)
Fees for project contracts	72	231	(159)
Employees costs	165	114	51
Costs for administration of work	407	377	30
Expenses for external services, call centre activities	400	297	103
Postal fees	25	59	(34)
Transportation costs and rent	73	68	5
Additional costs for the storage of stocks of OCSIT	596	325	271
Telephonic	141	136	5
Other services	213	140	73
Other minor	59	72	(13)
Total	8,313	8,447	(134)

Compared to the previous year, the item decreased by € 134 thousand; the most relevant decrease, equal to € 306 thousand, is due to service contracts with parent company.

Cost for use of third party assets – € 15,823 thousand

The item consists of the following two sub-items:

- **fees for oil product storage service - € 14,105 thousand.** These refer to the cost of the fees paid to third parties to lease storage depots for OCSIT product stocks. Note that this item increase by € 5,888 thousand relative to 2016, in relation to the increase in the average number of stock days stored.
- **Other - € 1,718 thousand.** The sub-item consists mainly of the rent paid to the parent company to lease the Company's offices (€ 1,601 thousand). The item increased by € 142 thousand with respect to 2016.

Personnel costs – € 13,770 thousand

The items that make up overall personnel costs are summarised in the table below, with shows changes with respect to 2016.

€ thousand

	2017	2016	Changes
Salaries and wages	9,945	9,388	557
Social security contributions	2,708	2,563	145
Termination indemnities	683	659	24
Other costs	434	289	145
Total	13,770	12,899	871

The following tables show, for the last two years and for each contractual category, monthly changes in the workforce, the level at year-end and the average level:

	January 1 - Dec. 31, 2017													Workforce at 31 December 2017	Average Workforce 2017
	Workforce at 31 December 2016	January	February	March	April	May	June	July	August	September	October	November	December		
<i>Senior managers</i>	11	11	11	11	11	11	11	11	11	11	12	12	12	12	11.25
<i>Middle managers</i>	26	26	26	26	26	26	26	26	26	26	24	25	26	26	25.75
<i>Administrative personnel</i>	172	173	172	172	172	172	172	172	172	174	176	176	176	176	173.25
TTL	209	210	209	209	209	209	209	209	209	211	212	213	214	214	210.25

Average personnel cost 2017: € 65,492.07 Average work force 2017 210.25 Personnel cost 2017 € 13,769,709.71

	January 1 - Dec. 31, 2016													Workforce at 31 December 2016	Average Workforce 2016
	Workforce at 31 December 2015	January	February	March	April	May	June	July	August	September	October	November	December		
<i>Senior managers</i>	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11.00
<i>Middle managers</i>	25	25	25	25	24	24	24	24	24	25	25	25	26	26	24.67
<i>Administrative personnel</i>	177	177	177	177	176	176	176	176	176	175	175	174	172	172	175.58
TTL	213	213	213	213	211	211	211	211	211	211	211	210	209	209	211.25

Average personnel cost 2016: € 61,058.22 Average work force 2016 211.25 Personnel cost 2016 € 12,898,549.08

The item increased by € 871 thousand with respect to the previous year, due to changes in the workforce and the average cost.

Amortisation, depreciation and write-downs - € 2,971 thousand

In 2017, this item consisted of amortisation/depreciation for € 2,721 thousand and write-downs on current receivables for € 250 thousand.

Amortisation/depreciation, calculated as already noted in regards to fixed assets, applied to intangible assets in the amount of € 2,251 thousand and to tangible assets for € 470 thousand. The item increased, relative to the previous year, by € 611 thousand.

Other operating costs – € 118,768 thousand

The item is divided into sub-items analysed below.

a) Contingent liabilities related to energy – € 118,520 thousand

The following table sets details the contingent liabilities pertaining to energy. These items are matched, in terms of amounts, by similar revenue items recorded in non-recurring income related to energy, as a consequence of the effect of institutional management, mentioned in the section on accounting principles.

The following table records sub-items of detail regarding the various types existing, separately for the timing of the generation of the contingent liabilities for the period 2012 (and earlier) and 2016.

€ thousand

	2017	2016	Changes
<u>Year 2012 and earlier:</u>			
- load profiling adjustment and various TERNAs	1,015	11,388	(10,373)
- load profiling adjustment and various - enhanced protection operators	8,867	14,623	(5,756)
Total	9,882	26,011	(16,129)
<u>Year 2013:</u>			
- load profiling adjustment and various TERNAs	161	5,198	(5,037)
- load profiling adjustment and various - enhanced protection operators	3,933	6,586	(2,653)
Total	4,094	11,784	(7,690)
<u>Year 2014:</u>			
- load profiling adjustment and various TERNAs	209	5,544	(5,335)
- load profiling adjustment and various - enhanced protection operators	6,658	11,338	(4,680)
Total	6,867	16,882	(10,015)
<u>Year 2015:</u>			
- load profiling adjustment and various TERNAs	4,832	97,189	(92,357)
- load profiling adjustment and various - enhanced protection operators	-	2	(2)
Total	4,832	97,191	(92,359)
<u>Year 2016:</u>			
- load profiling adjustment and various TERNAs	70,254	-	70,254
- load profiling adjustment and various - enhanced protection operators	22,591	-	22,591
Total	92,845	-	92,845
Total	118,520	151,868	(33,348)

b) Other charges – € 248 thousand

The breakdown is as follows:

€ thousand

	2017	2016	Changes
- Entertainment costs	24	10	14
- Other contingencies, non-energy management	99	371	(272)
- Taxes	75	88	(13)
- Buying newspapers, books and magazines etc.	7	7	-
- Other	43	20	23
- Ordinary capital losses from disposals	-	9	(9)
Total	248	505	(257)

With respect to the previous year, the item decreased by € 257 thousand.

DIFFERENCE BETWEEN VALUE AND PRODUCTION COSTS – € 305 thousand

The difference between value and cost of production of € 305 thousand is attributable to, among other things, the estimate of the contribution to cover costs for the Energy area, based on hypotheses used to define a specific before-tax return rate on AU shareholders' equity, based on algorithms adopted by ARERA. To facilitate understanding of the dynamics which lead to the difference in question, the Report on Operations presents the following detailed models, in addition to the Model of the reclassification of the income statement:

- Costs for purchase of energy;
- Operating costs, based on nature;
- Operating costs, based on the specific Area of activity.

FINANCIAL INCOME AND EXPENSES – € 68 thousand

Net financial income equal to € 68 thousand, comprises gross income of € 5,756 thousand, against gross expense of € 5,688 thousand. The analysis of the individual items follows.

Other financial income – € 5,756 thousand

The breakdown is as follows:

- long term receivables - € 1 thousand

The item consists of accrued interest on loans to employees.

- **other income - € 5,755 thousand**

This item consists mainly of the portion of the OCSIT contribution charged to oil operators, equal to € 4,047 thousand, associated with coverage of financial costs relative to OCSIT's operations, in particular with regard to interest accrued on the loan granted to obtain stocks.

The remaining income includes, € 1,453 thousand for income from fees invoiced to operators to cover financial expense from the energy area, € 9 thousand for interest income accrued on short-term bank accounts held by the Company, € 244 thousand for interest on arrears and penalties charged to enhanced protection service operators for late payment and, € 2 thousand for positive exchange differences.

Interest and other financial expenses – € 5,688 thousand

- **Interest due to parent companies - € 61 thousand**

The item consists of interest expense paid to the parent company on the basis of the intercompany current account agreement.

- **Other – € 5,627 thousand**

The amount mainly refers to financial expense and fees accruing in 2017, relative to two loan contracts signed by OCSIT in June 2014 and March 2017, granted to purchase specific stocks. These charges, equal to € 4,047 thousand, include € 3,679 thousand in interest expense on the amounts used to purchase the stocks as well as the fee for non use (so called commitment fee), € 355 thousand accruing during the period between the date of first use and 31 December relative to sums available but not yet used from the most recent loan, signed in March 2017. The amount also includes € 13 thousand in sums transferred from OCSIT to banks for interest on overdrafts granted on short-term credit lines for treasury needs.

The item also includes € 1,082 thousand for interest expense relative to CSEA, connected with advances for purchases on the DAM, € 277 thousand for interest and fees relative to factoring transactions for with recourse transfers on a monthly basis of receivables associated with enhanced

protection service operators, € 179 thousand for the bank surety issued to guarantee VAT credit and maturing in September 2017, and € 42 thousand in interest expense on short-term bank debt.

INCOME TAXES – € 125 thousand

Details of the item, together with the changes relative to the previous year, are summarized in the following table:

€ thousand			
	2017	2016	Changes
- Current taxes:	259	315	(56)
IRAP	80	68	12
IRES	179	247	(68)
- Taxes relative to previous years:	(27)	(84)	57
IRES	(27)	(28)	1
IRAP	-	(56)	56
- Deferred tax assets and liabilities	(107)	(52)	(55)
IRES - deferred tax liabilities	(12)	(30)	18
IRES - deferred tax assets	(87)	(4)	(83)
IRAP - deferred tax assets	(8)	(18)	10
Total	125	179	(54)

a) Current taxes - € 259 thousand

The balance of current taxes refers to IRAP for € 80 thousand and to IRES for € 179 thousand accruing during the year.

b) Taxes relative to previous years - € -27 thousand

The balance of this item mainly consists of the reimbursement of taxes relative to previous years, following the request made for IRAP relative to 2005 and 2006, presented in 2009, at the time of “clickday” for the Lazio region.

c) Deferred tax assets and liabilities - € -107 thousand

The balance of this item is as follows:

- € -95 thousand for prepaid taxes, of which € -87 relative to IRES and € -8 thousand for IRAP. The amount is related to deductible temporary differences accruing in 2017, on the assumption of their future recovery. Future recoverability is evaluated on the basis of estimates made, including through analysis of tax legislation and forecasts of consequent effects on future taxable bases;
- € -12 thousand for deferred taxes, the balance determined through the use of the provision for deferred taxes, for the portion of interest on arrears accruing in previous years, received during the year, net of provisions, relative to interest on arrears ascertained during the year in question but not yet received.

Reconciliation between the theoretical tax rate with the effective tax rate

In accordance with document OIC 25, the schedules below provide, for IRES, the detail of the reconciliation between income tax from the accounts and the theoretical charge and for IRAP, determination of the taxable amount.

Reconciliation IRES	Taxable	IRES
Result before current, deferred tax assets and liabilities	400	
Theoretical tax charge (24.00 %)		96
Temporary differences taxable in future years	(126)	
Temporary differences deductible in future years	1,746	
Reversal of taxable temporary differences from previous years	177	
Reversal of temporary differences from previous years	(1,384)	
Differences that will not be reversed in subsequent years	(65)	
TAXABLE INCOME	748	
CURRENT IRES ON PROFIT FOR THE YEAR		179

The temporary differences relative to IRES (taxable and deductible in subsequent years) are analysed with reference to the items to which they refer (deferred tax assets and deferred tax liabilities).

The differences which will not be reversed in subsequent years (€ 65 thousand) are mainly due to non-deductible contingent liabilities, expenses relative to cars, telephones and decreases, consisting of the additional employee severance indemnity deduction, the IRAP deduction and non-deductibility of positive components for taxes from previous years.

Euro thousand

IRAP	Taxable	IRAP
Differences between value and cost of production	305	
Costs not relevant for IRAP	12,513	
Deductions	(11,896)	
TOTAL	922	
<i>Theoretical tax (rate 4.82%)</i>		44
Temporary differences taxable in future years	-	
Temporary differences deductible in future years	1,505	
Reversal of temporary differences from previous years	(1,347)	
Differences that will not be reversed in subsequent years	571	
TAXABLE IRAP	1,651	
Current IRAP for the year		80

Relative to IRAP, temporary differences taxable in subsequent years are not present.

The temporary differences deductible in subsequent years are analysed with reference to the items to which they refer (prepaid tax receivables).

The differences that will not reverse in subsequent years (€ 571 thousand) are essentially due to the balance between costs for employee services non-deductible for IRAP purposes and to contingent

assets not taxable for IRAP purposes; deductions refer to items envisaged under IRAP regulations (article 11, Legislative Decree 446/97).

PROFIT FOR THE YEAR - € 248 thousand

Profit for 2017 is obtained by the difference between profit before taxes (€ 373 thousand) and the tax charge for the year (€ 125 thousand), in turn represented by the algebraic sum of the amount of current taxes, taxes relative to previous years, and deferred tax assets and liabilities.

The result before taxes, in more detail, is quantified as such as a result of the effects of a rate of return on shareholders' equity before tax burdens, in accordance with ARERA regulations adopted on a continuous basis.

STATEMENT OF CASH FLOWS

The Company prepared the statement of cash flows following the structure established under accounting standard OIC 10.

Below are brief comments on the main items.

Cash flows from operating activities - € -457,203 thousand

This item comes to € -457,203 thousand, compared to the € -25,407 thousand recorded the previous year.

The flow in effect, more specifically, consists of profits “adjusted” for income tax, interest (€ 305 thousand), adjustments for non-monetary elements (€ 4,909 thousand), changes in net working capital (€ -461,037 thousand) and other adjustments (€ -1,380 thousand).

Cash flows from investments - € -182,306 thousand

This item shows outgoing flows correlated with investments in fixed assets, net of payables due to suppliers for the fixed assets themselves. The most significant flow is associated with the value of purchases of OCSIT oil product stocks during the year. The flow in question increased with respect to the previous year. € 182,306 thousand in 2017, against € 114,673 thousand in 2016.

Cash flows from financing activities - € 615,583 thousand

The cash flow in question is associated, on one hand, from new disbursements relative to the medium-term loan contract for oil product stock supply requirements and, on the other, from the increase in short-term payables due to banks, these latter for the most part required to support the requirements determined by the monetary settlement methods used for purchases on the Day Ahead Market. This flow, equal to € 615,583 thousand, indicates growth with respect to the value of € 175,353 thousand seen the previous year.

Decrease in cash and cash equivalents - € -23,926 thousand

Total cash flow, equal to the algebraic sum of financial flows specifically identified amounted to € -23,926 thousand, against the € 35,272 thousand generated the previous year. This led to a total amount of cash and cash equivalents of € 22,646 thousand at 31 December 2017, of which € 22,641 thousand consisting of bank deposits and € 5 thousand from cash and valuables on hand.

OTHER INFORMATION

With reference to Article 2497-bis, paragraph 4, is provided a summary of significant financial data for the parent company which provides management and coordination of Acquirente Unico. We also note that Gestore dei Servizi Energetici – GSE S.p.A., with its registered office in Rome, in Viale Maresciallo Pilsudski, 92, prepares the consolidated financial statements.

Gestore dei Servizi Energetici - GSE S.p.A.

FINANCIAL STATEMENTS - 2016

€

BALANCE SHEET

	AMOUNT
ASSETS	
UNPAID SHARE CAPITAL DUE FROM SHAREHOLDERS	-
FIXED ASSETS	111,332,911
CURRENT ASSETS	5,132,641,699
ACCRUED EXPENSES AND DEFERRED CHARGES	267,250
Total Assets	5,244,241,860
LIABILITIES	
SHAREHOLDERS' EQUITY:	
Share Capital	26,000,000
Reserves	12,356,286
Profit of the year	7,795,615
PROVISIONS FOR RISKS AND CHARGES	36,067,100
SEVERANCE INDEMNITY FUND	2,614,101
LIABILITIES	5,125,377,179
ACCRUED EXPENSES AND DEFERRED CHARGES	34,031,579
Total liabilities	5,244,241,860

INCOME STATEMENT

PRODUCTION VALUE	16,450,361,212
PRODUCTION COSTS	16,448,202,083
FINANCIAL INCOME & COSTS	7,319,377
VALUE ADJUSTMENTS OF FINANCIAL ASSETS	-
INCOME TAXES	(1,682,891)
NET INCOME	7,795,615

Also note the absence of the following circumstances:

- equity investments, held directly or through a trust company or third parties, in subsidiaries and associates;
- trade receivables and payables due after more than five years and debts secured by collateral on corporate assets;
- financial charges recorded in the year to assets entered in the balance sheet;
- income from equity investments;
- revenue or cost elements of an exceptional amount or impact. To that end, note that both contingent assets and liabilities associated with electricity management, duly analysed in terms of amounts and commented upon in this document, are not of an exceptional nature, in that they are the consequence of management of adjustments and similar phenomena, the latter of which are recurring, natural and subject to specific technical rules, within the context of the electricity system;
- recognition of deferred tax assets, for the portion recognised in the financial statements relative to losses during the year or in previous years;
- advances and loans granted to directors and statutory auditors;
- issuing of bonus shares, bonds convertible to shares, warrants, options and securities or similar items;
- issuing of other financial instruments;
- financial leasing transactions that involve the transfer to the lessor of the larger part of the risks and benefits inherent to the assets which involved in the lease.

Also specify, with reference to point 22-bis) of Article 2427 of the Civil Code, that transactions with related parties are carried out under normal market conditions, in compliance with the conditions that would apply to independent counterparts.

REPORT ON 2017 FINANCIAL STATEMENTS

ACQUIRENTE UNICO S.p.A.

Registered offices in Via Guidobaldo Del Monte, 45 - 00197 Rome
Share capital € 7,500,000 fully paid-in
Rome Registry of Companies, VAT and Tax ID no. 05877611003
Economic and Administrative Registry of Rome no. 932346
Sole shareholder Gestore dei Servizi Energetici - GSE S.p.A. Legislative Decree 79/99
Company subject to management and coordination by GSE S.p.A.

Report of the Board of Statutory Auditors to the Shareholders' Meeting pursuant to Article 2429 of the Civil Code

Amounts are expressed in euros

To the Shareholders' Meeting of ACQUIRENTE UNICO S.p.A.

Dear Shareholder,

during the year ending on 31/12/2017, the Board of Statutory Auditors carried out the functions established in Articles 2403 and subsequent of the Civil Code, its activities inspired also by the Board of Statutory Auditors Behavioural Guidelines issued by the Italian National Council of Chartered Accountants and Accounting Experts.

The Board of Statutory Auditors in office for the period from 2017 - 2019 was appointed by the Ordinary Shareholders' Meeting on 26 October 2017. In fact, when the 2016 annual financial statements were approved, the three-year term of the previous Board of Statutory Auditors had expired, which had continued to operate under prorogation until the current Board was appointed.

At its initial meeting, the Board of Statutory Auditors noted that each member of the Board had presented their declarations of transparency pursuant to Article 2400 of the Civil Code, accepting the role. They also noted that none of the Auditors indicated any causes

of ineligibility or forfeiture as established under the current regulations, nor any other causes that would impede them from carrying out their responsibilities.

Relative to 2017, the Board of Statutory Auditors:

- monitored compliance with the law and the Bylaws and respect for the standards of proper administration, participating in the Shareholders' Meetings and those of the Board of Directors. To that end, the Board of Statutory Auditors notes that it obtained information from the administrative body on the general trend of management and its foreseeable outlook, as well as on the most important transactions carried out by the Company in terms of size and characteristics. The Board of Statutory Auditors can reasonably affirm that the actions carried out are compliant with the law and the Bylaws and are not manifestly imprudent, do not involve potential conflicts of interest and are not in contrast with the resolutions made by the Shareholders' Meeting or such as to compromise the integrity of the company's equity;
- monitored - for the areas under its responsibility - the adequacy of the administrative and accounting system, as well as the reliability of the latter in terms of properly representing management events, by obtaining information from the entity responsible for independent auditing and examining company documents. To that end, it has no particular observations to make. We also note that pursuant to Article 26 of the Bylaws, which introduced the Financial Reporting Manager pursuant to Article 154-bis of Legislative Decree 58/98, as amended, the Managing Director and the Financial Reporting Manager have attested to, with a specific certification, issued 28 March 2018 *“the adequacy and effective application of the administrative and accounting procedures used to prepare the annual financial statements at 31 December 2017 in relation to the company's characteristics”*, as well as the correspondence of the 2017 annual financial statements *“to the entries in the accounting books and registries”* and that the financial statements *“are prepared in compliance with the norms of the Civil Code, as well as the accounting standards prepared by the OIC and, as formed, is suitable to provide a true and accurate representation of the equity, economic and financial situation of Acquirente Unico S.p.A.”*; it finally certifies that *“the report on operations includes*

reliable analysis of the trend and results of operations, as well as the situation of Acquirente Unico S.p.A., together with a description of the main risks and uncertainties to which the Company is exposed”;

- maintained systematic exchanges of communication with the independent auditor and no significant data or information which required indication in this report was identified;
- learned about and monitored the adequacy of the Company's organisational structure, also through obtaining information from the managers of the relative company structures and, to that end, has no particular observations to make;
- determined that there were no appointments for services that could compromise the independence of the auditing firm Deloitte & Touche S.p.A., assigned to perform the independent auditing of the accounts and certify the financial statements; the same auditing firm was also appointed to examine the separate accounts (unbundling) of the Integrated Information System (IIS) established as part of the Company pursuant to Decree Law 105 of 8 July 2010, converted with amendments by Law 129 of 13 August 2010, and of the Italian Central Stockholding Entity (OCSIT) attributed to the Company pursuant to Legislative Decree 249 of 31 December 2012;
- relative to implementation of the regulations regarding corporate liability, note that the Oversight Committee, during 2017, monitored application of the Model and Code of Ethics by the company structures which monitor processes at risk for the commission of crimes, to guarantee observance and application of the organisational procedures and safeguards; the Board of Statutory Auditors, also during the meetings held with the Chairperson of the Oversight Committee, did not receive any notifications of particular relevance from the latter;
- in 2017, in addition to electricity supply activities for the protected market, additional Company activities also continued, including those relative to OCSIT and the IIS. The Board of Statutory Auditors notes that the report on operations contains an exhaustive description of all the activities of Acquirente Unico S.p.A., including those of OCSIT and the IIS.
- in compliance with that established in the Ministry of Economic Development Official

Guideline and in Annex B to resolution ARG/com/201/2010, relative to the IIS, the Company is required to send the annual separate financial statements for the IIS and OCSIT to the relevant Institutions, following approval of the 2017 financial statements, in line with the schedules established in the relative regulations;

- during 2017, the Company's Board of Statutory Auditors, also in its previous form, issued the following favourable opinions as requested and in line with its responsibilities:
 - on 15 March 2017, in regards to the policy adopted by the Company relative to fees paid to Directors with powers, also in terms of the achievement of objectives assigned to Directors with reference to the variable portion, pursuant to article 4 of Ministry of Economy and Finance Decree 166/13; consequently, it deemed the process of determining the achievement of the objectives in line with said policy, as indicated in the report on fees paid to Directors with powers pursuant to Article 23 bis, paragraph 3 of Decree Law 201 of 6 December 2011, converted, with amendments, to Law 214 of 22 December 2011, as subsequently amended by article 4 of Ministry of Economy and Finance Decree 166 of 24 December 2013, prepared for the previous year;
 - on 15 March 2017 and 13 October 2017, in regards to determining objectives for 2017 associated with the variable portion of the fees paid pursuant to article 2389, third paragraph of the Civil Code to directors with proxies for the Company, as granted with the Board resolution of 15 March 2017, confirmed with a subsequent Board meeting on 16 October 2017, following the appointment of the new Board of Directors for the Company;
 - on 4 April 2017, in the context of the report to the financial statements at 31/12/2016, with regards to the proposal of the Directors for distribution of profits and approval of said financial statements;
 - on 27 June 2017, in regards to the extension of the appointment given to Deloitte & Touche S.p.A. for independent auditing of the accounts for the

time strictly necessary to appoint the entity appointed to carry out independent auditing for the next three-year period. To that end, we note that the appointment extended for Deloitte & Touche S.p.A. established expiration as of the approval of the financial statements at 31 December 2015, but that the tender issued by the parent company GSE S.p.A. for the new appointment was unable to be completed for the entirety of 2017 due to a legal case brought by one of the subjects participating in the tender; in this situation, in order to ensure continuity of the accounting controls and regular auditing of the annual financial statements, the Board of Directors and the Shareholders' Meeting, with a favourable opinion expressed by the Board of Statutory Auditors - each in regards to their own responsibilities - decided to extend the appointment given to Deloitte & Touche S.p.A. to perform auditing services for 2017, in continuity with that established for financial year 2016;

➤ on 13 October 2017, in regards to the appointment of the Financial Reporting Manager pursuant to the Guidelines: the role of the Financial Reporting Manager within Acquirente Unico S.p.A.;

- during these supervisory activities, as described above, no additional significant events were identified such as to require mention in this report;
- during 2017 and until the date this report was issued, no complaints were received pursuant to article 2408 of the Civil Code;
- the Board of Statutory Auditors therefore examined the draft financial statements for the Company at 31/12/2017, prepared by the Directors pursuant to the law and communicated by them to the Board of Statutory Auditors, together with the detailed schedules and annexes, at the Board of Directors meeting on 26 March 2018.

The accounting document in question, prepared in compliance with the provisions of Article 2423 and subsequent of the Civil Code, also as amended by Legislative Decree 139/2015, shows profits of €247,685.

Below we provide a summary of the balance sheet and income statement.

BALANCE SHEET***ASSETS***

<i>Amounts shown in euros</i>	<i>Dec. 31, 2017</i>	<i>Dec. 31, 2016</i>
Receivables due from shareholders from amounts unpaid	-	-
Fixed assets	481,691,816	301,833,580
Current assets	791,050,903	814,205,663
Accruals and deferrals	340,844	122,889
TOTAL ASSETS	1,273,083,563	1,116,162,132

SHAREHOLDERS' EQUITY AND LIABILITIES

<i>Amounts shown in euros</i>	<i>Dec. 31, 2017</i>	<i>Dec. 31, 2016</i>
Shareholders' equity		
<i>I Capital</i>	7,500,000	7,500,000
<i>IV Legal reserve</i>	1,116,491	1,109,411
<i>VII Other reserves (extraordinary reserve)</i>	-	-
<i>IX Profit (loss) for the year</i>	247,685	141,607
Total shareholders' equity	8,864,176	8,751,018
Provisions for risks and charges	1,618,999	1,473,472
Employee severance indemnity	572,604	558,436
Payables	1,262,010,512	1,105,366,882
Accruals and deferrals	17,272	12,324
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,273,083,563	1,116,162,132

INCOME STATEMENT

<i>Amounts shown in euros</i>	<i>Dec. 31, 2017</i>	<i>Dec. 31, 2016</i>
Production value	3,945,212,014	3,754,906,390
Production costs	3,944,906,611	3,754,565,620

Difference between value and cost of production	305,403	340,770
Financial income and expense	68,160	(19,477)
Income before taxes	373,563	321,293
Income taxes	125,878	179,686
PROFIT FOR THE YEAR	247,685	141,607

With regards to the examination of the 2017 annual financial statements, we report the following:

- as the Board of Statutory Auditors is not responsible for independent auditing of the accounts, it monitored the general structure given to these and its general compliance with the law in regards to its content and structure and, to that end, has no special observations to make;
- the Board of Statutory Auditors verified observance with the norms under the law relative to preparation of the report on operations and, to that end has no special observations to make;
- in its report on the financial statements, issued on 6 April 2018, the independent auditing firm certified that, in its opinion, the annual financial statements “*provide a true and accurate representation of the Company's equity and financial situation at 31 December 2017, on the economic result and cash flows for the year ending on said date, in compliance with the Italian regulations which govern the preparation criteria*”; it also certified that the report on operations “*is consistent with the annual financial statements of Acquirente Unico S.p.A. at 31 December 2017 and was prepared in compliance with the norms of the law*”; finally, it issued the declaration pursuant to article 14, paragraph 2, letter e) of Legislative Decree 39/10, declaring that it had nothing to report;
- the Board of Statutory Auditors has not identified any obstacles to the Board of Directors' proposal to distribute the profits to the shareholder in the amount of € 235,301, as distributable net profit;
- to the best of its knowledge, the Directors, in preparing the financial statements, did not

derogate from the norms of the law pursuant to Article 2423, paragraph 4 of the Civil Code;

- no atypical or unusual transactions were identified and the Directors, in the report on operations and in the explanatory notes, illustrated the financial relations, commercial exchanges and services provided between the companies of the Group;
- the Board of Statutory Auditors verified the correspondence of the financial statements with the events and information which it was made aware of as a consequence of carrying out its responsibilities and has no observations to that end.

Also considering the results of the activities performed by the independent auditing firm, illustrated in the auditing firm's report, the Board of Statutory Auditors expresses its opinion in favour of approving the financial statements for the year ending on 31/12/2017, in compliance with that provided for by the Board of Directors.

Rome, 6 April 2018

The Chairman
Dr. ALESSANDRA D'ONOFRIO

Statutory Auditor
Dr. PIERLUIGI CARABELLI

Statutory Auditor
Dr. ROBERTO NICOLO'



Deloitte & Touche S.p.A.
Via della Camiluccia, 589/A
00135 Roma
Italia

Tel: +39 06 367491
Fax: +39 06 36749282
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

**To the Shareholder of
Acquirente Unico S.p.A.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Acquirente Unico S.p.A. ("Company"), which comprise the balance sheet as at December 31, 2017, the income statement and statement of cash flows for the year then ended and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Italian law governing financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian law governing financial statements, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Perugia Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20140 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239 | Partita IVA: IT 03049560166

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As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e) of Legislative Decree 39/10

The Company's Directors are responsible for the preparation of the report on operations of Acquirente Unico S.p.A. as at December 31, 2017, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of the Company as at December 31, 2017 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the financial statements of Acquirente Unico S.p.A. as at December 31, 2017 and is prepared in accordance with the law.



3

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Falcone
Partner

Rome, Italy
April 6, 2018

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



ATTESTATION OF THE ANNUAL FINANCIAL STATEMENTS PURSUANT TO ARTICLE 26 OF THE BYLAWS

1. *We the undersigned, Andrea Pèruzy, as Chairman and Chief Executive Officer and Paolo Lisi, as Financial Reporting Manager of Acquirente Unico S.p.A.,*

ATTEST

- *the adequacy in relation to the company's characteristics and*
- *the effective application*

of the administrative and accounting procedures used to prepare the annual financial statements at 31 December 2017.

2. To that end, we note that this attestation was prepared on the basis of the activities carried out by the Financial Reporting Manager during the year, as well as a system of attestations issued by the managers of the various organisational units and, in reference to the processes carried out, on the basis of service contracts with the parent company GSE, by the managers of the related departments within the parent company. More specifically:

- the Energy Operations Department, Consumers and Conciliation Department, OCSIT Department, Integrated Information System Departments and Strategic Development and Communication Department, in relation to the processes placed under their responsibilities, attested with declarations signed by their respective managers that the data and information



necessary to prepare the 2017 annual financial statements and the relative report on operations were properly processed and represented;

- the Human Resources and General Services Department of the parent company, on the basis and within the limits of that established in the existing service contract and in relation to the processes placed under its responsibility, attested with a declaration signed by the respective manager that the data and information necessary to prepare the 2017 annual financial statements were properly processed and represented;
- the IT Systems Department of Acquirente Unico S.p.A. and the IT Systems Department of GSE, in relation to the processes placed under their responsibilities, attested with declarations signed by their respective managers the adequacy of the IT systems to monitor the events which impact the economic, equity and financial situation of Acquirente Unico S.p.A., and more specifically with regards to:
 - the proper functioning of the infrastructure and applications functional to the acquisition, processing and representation of administrative/accounting information and information that in any case serves to feed the accounting system and therefore produced an effect on the disclosures in the 2017 annual financial statements;
 - the existence of adequate procedures suitable to guarantee the protection of the company's informational assets.

A specific office which supports the Financial Reporting Manager performed technical/administrative checks on the various processes used to supply information for the annual financial statements, including accounts receivable, accounts payable and personnel costs, the results of which attest to the accuracy of the operations performed.

In 2017, the AU Audit Office, as part of planned activities, carried out audits on various Acquirente Unico processes which included the financial statement preparation process.



Following the audit of the financial statement preparation process, the final report for which was issued in November 2017 (considering the economic and financial/equity data relative to the previous year) indicated the following conclusions:

- the process used to prepare the financial statements is governed by a specific internal procedure which, among other things, guarantees reconstruction of the individual phases of the process itself, through filed documentation;
- activities are adequately segregated within the organisation;
- the authorisation powers and proxies system is adequate with respect to the activities necessary to carry out the process.

Based on a request made by the Financial Reporting Manager, the Audit Office also performed two additional audits relative to processes implemented by the Energy Operations Department, specifically relative to “Monthly measurement management” and “Sale price calculation and updating”, which did not identify any problems and/or deformities with the existing procedures.

Relative to the attribution of tax charges accruing for 2017, the Company's tax expert issued a specific attestation regarding the accuracy of the relative calculations.

3. We also attest that the 2017 annual financial statements, which show net profit of €247,685 and shareholders' equity of €8,864,176:

- a) are consistent with the underlying accounting books and records;*
- b) are prepared in compliance with the rules of the Civil Code, as well as the accounting standards prepared by the OIC (Italian Accounting Body) and, to the best of our knowledge, are suitable to provide a true and fair view of the financial position and results of operations of Acquirente Unico S.p.A.*



4. Finally, we attest that the report on operations contains a reliable analysis of the operating and financial performance and situation of Acquirente Unico S.p.A., together with a description of the main risks and uncertainties to which the Company is exposed.

Rome, 28 March 2018

Chairman and Chief Executive Officer

Financial Reporting Manager