FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

TIRRENO POWER SPA

Registered Office: Via Barberini 47, Rome
Share Capital Euro 60,516,142.00 fully paid
VAT no., Fiscal Code and Business Register of Rome n. 07242841000
Administrative Business Registry n. 1019536
Administrative office and Naples facility: Stradone Vigliena 39, Naples
Torrevaldaliga facility: Via Aurelia 2, Civitavecchia (Rome)
Vado Ligure facility: Via A. Diaz 128, Valleggia of Quiliano (Savona)
Renewable Sources Area: Corso Torino 1, Genoa

INDEX

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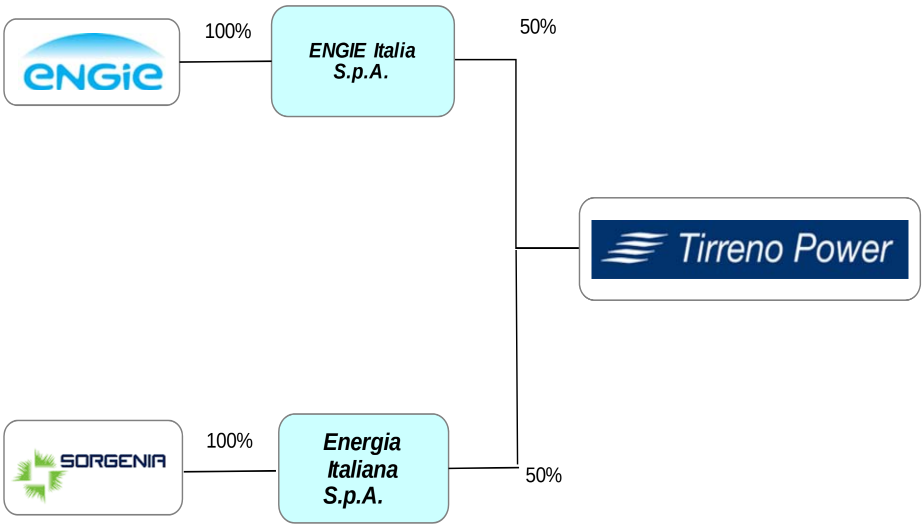
Management report

Introduction

Ownership structure

The Company at December 31, 2017 is jointly owned by Energia Italiana S.p.A. and Engie Italia S.p.A..



Corporate bodies

Board of Directors	
Chairman	Alberto Bigi
Directors	Aldo Chiarini Giovanni Chiura Angelica Orlando Eric Christyn de Ribacourt Giuseppe Gatti Antonio Cardani * Roberto Garbati *

Board of Statutory Auditors	
Chairman	Riccardo Zingales
Statutory Auditors	Maurizio Lauri Gianluca Marini
Alternate auditors	Hinna Danesi Goffredo Giuseppe Panagia

Independent Auditors
EY S.p.A.

** Independent directors, as set forth in the Company's Articles of Association.*

Operating structure

The Company is active in the production and sale of electricity through the management, in Italy, of some thermoelectric and renewable plants along the Tyrrhenian Sea area.

The following table summarizes the main characteristics of such facilities:

Gross reference capacity - commercial operation (MW)			
Production Units	as at 12.31.2017	as at 12.31.2016	Region
Vado Ligure plant	793	793	Liguria
Torrevaldaliga plant	1,176	1,176	Lazio
Naples plant	401	401	Campania
Thermoelectric total	**2,370**	**2,370**	
Total - Renewable Sources	**75**	**75**	Primarily in Liguria
Total	**2,445**	**2,445**	

With its production plants, the Company is able to generate electricity with high flexibility and competitiveness:

- the thermoelectric production units consist of 4 gas-powered combined-cycle plants;
- the renewable sources include 18 hydroelectric plants (divided equally between “run-of-river” and “power regulation” stations) located along the entire Ligurian Apennines.

As already reported in the previous annual financial statements, on June 6, 2016, the Company’s Board of Directors held that the conditions did not exist to allow a future return to service of coal-fired units 3 and 4 of the Vado Ligure plant, for a total capacity of 660 MW, that were already discontinued since they were subject to a seizure order from the Court of Savona starting from March 2014.

Tirreno Power - fully aware that the definitive cessation of activities in the coal-fired plants in Vado Ligure deprives the area of one of the most important industrial companies and employers - has launched an initiative for the re-industrialization of the site, aimed at encouraging the installation of new companies with the objective of contributing to the search for solutions that may provide future jobs for workers and growth prospects for the area.

For complete disclosure, it should be noted that, in this regard:

- On March 11, 2014 the G.I.P. (Preliminary Judge) of the Court of Savona had ordered the preventive seizure of the VL3 and VL4 units, as part of the criminal proceedings opened by the Public Prosecutor at the Court of Savona due to an environmental disaster, initiated in previous years against unknown persons and which, from the month of November 2013 saw some senior management and employees of Tirreno Power as suspects, for the offences set out in article 434, paragraphs 1 and 2 of the criminal code.

- On June 18, 2015 Tirreno Power was informed of the notice of conclusion of preliminary investigations, pursuant to art. 415 bis of the Code of Criminal Procedure. In fact, on October 25, 2016, the Public Ministers filed a request to the Office of the Preliminary Judge to postpone the proceedings, in relation to the charges described in the second notice pursuant to art. 415 of the Code of Criminal Procedure. In relation to the description of the disaster event, allegedly caused by the wrongful conduct of the defendants, significant deterioration of “marine sediments” is no longer included, alongside that of air quality and the conditions of the flora. At the preliminary hearing notice on January 25, 2018, the Preliminary Judge admitted as civil parties in the proceedings the Environmental Associations (Medicina Democratica-Movimento per la Salute, Greenpeace Onlus – Uniti per la Salute, Legambiente Associazione Onlus, Associazione WWF-O.N.G. Onlus, Associazione A.N.P.A.N.A) that had filed their appearance on October 26, 2017 and the Ministry of Environment and Land and Sea Protection, appearing on November 30, 2017, while it excluded the appearance of three private citizens whose notice of appearance was filed on January 25. During the hearing, the Judge opened the floor to the parties for discussion, after having heard the Public Ministers and some lawyers of the Civil Party. The hearing closed with the defense lawyers committed to discussing all the defensive arguments of the defendants at the next hearing which will be held on April 12, 2018.
- On December 23, 2016, the Ministry of Economic Development accepted the Company’s request, submitted on October 7, 2016, to disconnect coal-powered units VL3 and VL4 from the National Electricity Network.
- On January 28, 2017, the Preliminary Judge of the Court of Rome issued a judgment of dismissal pursuant to articles 409 and 410 of the Code of Criminal Procedure, upholding the request from the Public Prosecutor at the Court of Rome, in relation to the offence of abuse of office contested in the notice of closing of the preliminary investigations of July 20, 2016 vis-a-vis institutional and technical top management of the Liguria Region, the Province of Savona and the Municipalities concerned, as well as against an executive of Tirreno Power, abuse allegedly committed in order to obtain the AIA for the VL3 and VL4 coal-powered plants.
- On February 9, 2017, the Company waived the Sole Authorization of 55/01/2012 of March 5, 2012 for the construction of coal-powered unit VL6.
- On March 1, 2017, the Preliminary Judge of the Prosecutor’s Office of Savona authorized solely the ordinary maintenance of the plants, requested by the Company on January 16, 2017, hence terminating the extraordinary conservation works on said plants.
- On May 19, 2017, Tirreno Power presented the Ministry of the Environment and Land and Sea Protection with a request for the re-examination of the existing AIA (integrated environmental authorization) for the Vado Ligure thermoelectric plant, which concerned the operation of solely unit VL5 powered by natural gas. The Ministry issued the new provision on December 7, 2017, published in the Official Journal on January 4, 2018.
- On January 17, 2018, Tirreno Power presented the Ministry of Economic Development with the waiver of the Sole Authorization no. 55/04/2014 of December 31, 2014 for the construction of the roof of the coal facility at the Vado Ligure plant.

In addition, it should be noted that on May 9, 2014 the Company was notified of the closure of the preliminary investigation regarding the criminal proceedings concerning waste management and, at the same time, the inclusion of the same in the register of suspects pursuant to Law 231/2001. In relation to the aforementioned proceedings, the preliminary judge at the Court of Genoa, by means of a judgment dated March 6, 2015, declared the 'lack of jurisdiction of the Court' adjourning the case to the Prosecutor's Office at the Court of Turin. At the date of drafting of this document, no request to postpone sentencing had been formulated.

Please refer to note 28.2 in the notes to the financial statements for the evaluations regarding the contingent liabilities connected with the provisions that concern the coal units of the Vado Ligure site.

Vado Ligure plant

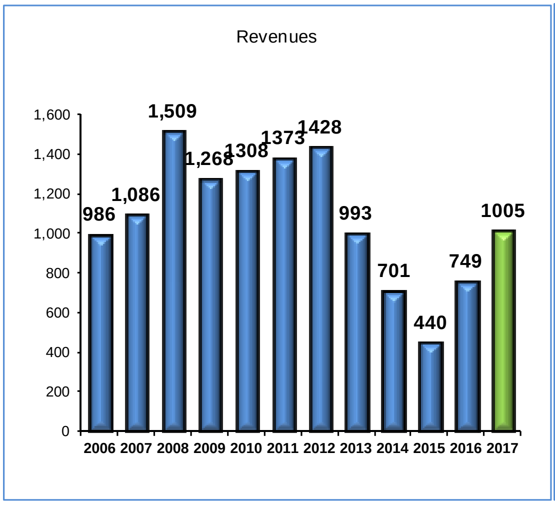
Focus on Results

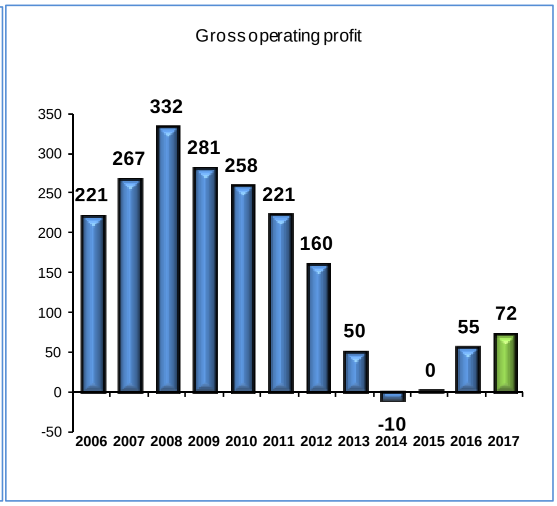
With the objective of presenting the results and analyzing the financial structure, the tables below contain some “alternative performance indicators” which management feels are most representative of the economic and financial results that are contained in the reclassified schedules that differ from those set forth in the international accounting standards adopted. In this section we provide the criteria used to calculate these indicators, in line with ESMA recommendation Guidelines on Alternative Performance Measures. The data, unless otherwise specified, may be directly deduced from the financial statements.

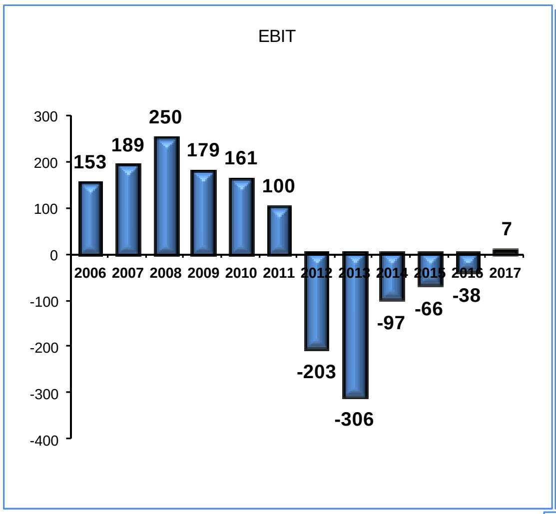
Highlights of the Company

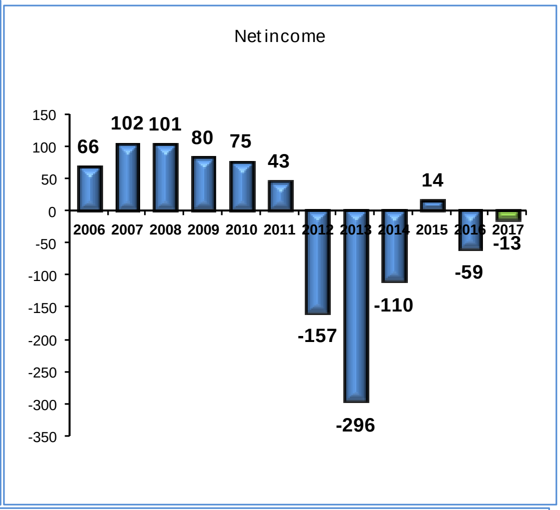
	12.31.2017	12.31.2016	Change %
Income statement data (millions of Euro)			
Total revenues	1,005.0	748.7	34.2%
-of which revenues from energy sales	*999.1*	*738.4*	*35.3%*
Gross operating profit	71.9	54.7	31.5%
EBITDA	63.2	21.8	190.2%
EBIT	7.3	(38.2)	119.0%
Net income for the period	(13.5)	(58.7)	77.1%
Equity and financial data (millions of Euro)			
Investments in fixed assets	31.9	40.8	-21.9%
Cash flow from operating activities	53.1	91.5	*-42.0%*
Shareholders' equity	185.6	198.7	*-6.6%*
Net capital employed	682.9	713.2	-4.2%
Net financial debt	497.3	514.4	-3.3%
Debt/Equity	2.7	2.6	*3.5%*
Operating data			
Energy sold (GWh)	16,464	14,317	15.0%
Energy Injected (GWh)	6,579	5,541	18.7%
Average amount (units)	332	383	-13.3%
Economic/financial indicators			
Unit revenue from energy sale (€/MWh)	60.7	51.6	17.7%
ROS (Return on Sales)	0.7%	-5.1%	114.2%
ROI (Return on Investment)	1.0%	-5.0%	120.9%
Market indicators (annual averages)			
Price of Brent crude oil ($/barrel) (source "Platt")	54.27	43.66	24.3%
US Dollar/Euro exchange rate (source UIC)	-	1.054	-100.0%
1-month Euribor @365 average (source www.euribor-ebf.eu	-0.37%	-0.37%	0.0%

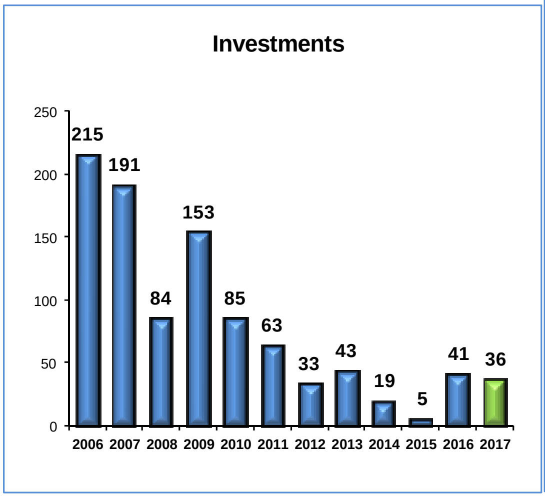
The criteria used for the construction of the indicators listed above are set out in the section Management Performance.

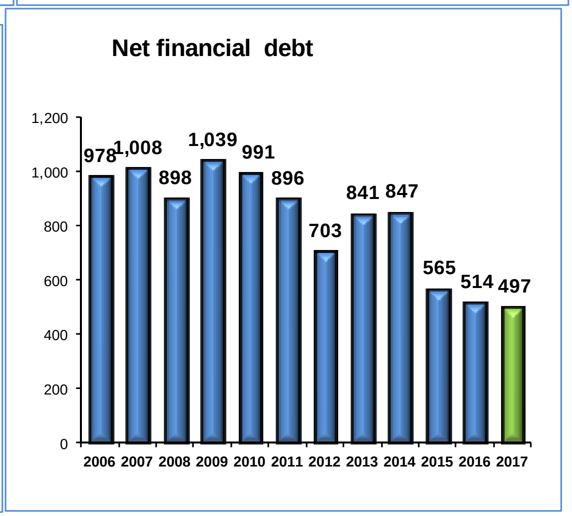

Revenues
1,600
1,400
1,200
1,000
800
600
400
200
0
986
1,086
1,509
1,268
1308
1373
1428
993
701
440
749
1005
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017


Gross operating profit
350
300
250
200
150
100
50
0
-50
221
267
332
281
258
221
160
50
-10
0
55
72
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017


EBIT
300
200
100
0
-100
-200
-300
-400
153
189
250
179
161
100
-203
-306
-97
-66
-38
7
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017


Net income
150
100
50
0
-50
-100
-150
-200
-250
-300
-350
66
102
101
80
75
43
-157
-296
-110
14
-59
-13
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017


Investments
250
200
150
100
50
0
215
191
84
153
85
63
33
43
19
5
41
36
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017


Net financial debt
1,200
1,000
800
600
400
200
0
978
1,008
898
1,039
991
896
703
841
847
565
514
497
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

Macroeconomic scenario

The expansion in global economic activity remains solid and widespread; however, the general fundamental weakness of inflation persists. Short-term growth prospects are favorable.

Growth prospects in the Euro area improved further. Expectations of deflation have disappeared altogether, but inflation remains low, at 1.4% in December; the core component remains weak, driven by the still modest salary growth in many economies in the area. The Governing Council of the ECB rebalanced the monetary policy instruments, however preserving highly expansionary monetary conditions also going forward, which remain necessary for a permanent return of inflation to lower levels but close to 2%.

In Italy, according to our estimates, in the fourth quarter of the last year, GDP was forecast to grow by 0.4%; the favorable trend was confirmed, but still below the European average, in the last few quarters. The increase would have concerned services and industry in the strictest sense. Surveys point to a return in business confidence to pre-recession levels; they also indicate favorable conditions for capital accumulation. These evaluations are confirmed by the acceleration in investment expenditure observed in the second part of the year.

Employment continued to rise in both the third quarter and, according to the most recent economic indications, in the last few months of the year; hours worked per employed person also increased. However, these still remain below the pre-crisis levels. According to the Survey on workforces, the unemployment rate sat at 11.0% in November. The salary trend remains modest even if, based on the employment contracts renewed in the second half of the previous year, it is showing some signs of recovery.

Despite a recovery in prices at source, consumer inflation in Italy remains weak, at 1.0% in December; core inflation is extremely low at 0.5%. According to the surveys, companies' inflation expectations are low, albeit higher than the lows recorded at the end of 2016. According to bulletin no. 1 of 2018 of the Bank of Italy, the new projections for the Italian economy in the 2018-2020 three-year period point to growth of 1.4% in 2018 and 1.2% in 2019-2020. Economic activity will be driven primarily by domestic demand.

Inflation should temporarily decrease this year and then start to rise gradually again. The projected decrease in 2018 (to 1.1% on average during the year) is attributable in particular to the leveling out of the effect of the increase in the prices of energy goods and foodstuffs at the start of 2017. In the next two-year period, prices are to rise by 1.5% on average per year, reflecting a gradual strengthening in salary growth.

This scenario presumes still accommodating financial conditions, with a very gradual adjustment of short and long-term interest rates, steady conditions on Government bond markets and relatively relaxed credit supply criteria. On the whole, the trend in GDP will continue to depend on the support of expansionary economic policies, but to a lesser extent than in the past.

As regards the risks that impact this scenario, those deriving from the international context and the performance of the financial markets remain relevant. An exacerbation of global tensions or greater uncertainty regarding economic policies in the different areas could translate to increases in volatility in the financial markets and risk premiums, with negative repercussions on the Euro area economy.

As regards risks originating internally, with respect to the latest forecast scenarios, those connected with the weakness of the credit system decreased, with potentially increased household and company uncertainty regarding the intensity of the ongoing recovery. The scenario outlined herein depends, however, on the continued application of economic policies capable, on the one hand, of promoting long-term growth of the economy, supporting investment and consumption choices and, on the other, ensuring a credible process of reduction of public debt, taking advantage of a favorable period for the global economy.

(source: Bank of Italy Economic Bulletin no. 1 2018)

Reference scenario

The energy product markets

In 2017, all energy commodities marked significant increases in value, recording an average above 2016.

In 2017, the price of Brent crude oil (ARA Spot Average), which significantly affects the unit cost of liquid and gaseous fuels purchased, recorded a increase in price, increasing from $ 46.52/barrel in June to $ 64.19/barrel in December; an annual average above that of 2016 was registered, actually increasing from $ 43.66/barrel in 2016 to $ 54.27/barrel in 2017 (source: "Platt's Crude Oil Marketwire").

The average price of low-sulphur fuel oil, which registered a similar trend to that of Brent crude oil, actually recorded a growth trend and saw a increase in the annual average compared to the previous year, going from $ 230.92 / ton in 2016 to $ 322.21 / ton in 2017, reaching its lowest value of $ 292.18 / ton in June 2017 (source: "Platt's").

The average price of coal increased when compared to 2016, rising from $ 59.67 / ton to $ 84.48 / ton in 2017, with the lowest value recorded of $ 73.35 / ton in March and the highest value of $ 94.50/ ton in December (source: "Argus" index API#2 Northwest Europe Cif ARA).

The average price of natural gas rose when compared to 2016, up from 15,615 €/MWh to 19,772 €/MWh in 2017 (source: PSV "Heren" index).

The average US dollar/Euro exchange rate was 1.1293 in 2017, an increase of 2% compared to the same period in 2016, when it stood at 1.1068 (source: Italian Exchange Office).

The average price of CO^2 quotas increased when compared to 2016, rising from € 5.34 / ton to € 5.77 / ton in 2017, recording the lowest value of € 4,969 / ton in June and the highest value of € 7,592/ ton in December (source: *"ICE FuturesTM" indexes ICE ECX EUA_Dec16 and EUA_Dec17*).

Production and demand for electricity in Italy

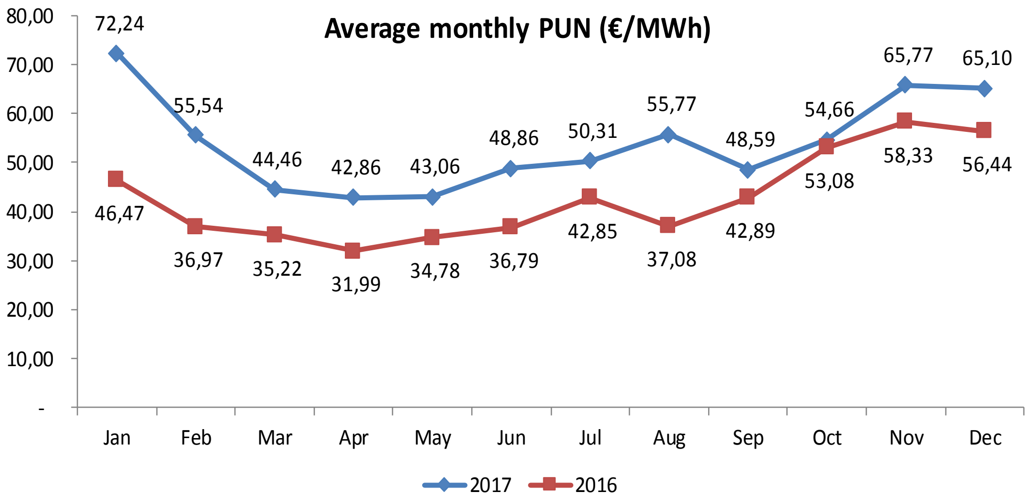
In 2017, the aggregate value of net production (285 TWh) rose (+1.9%) compared to 2016, while the value of electricity supply (320 TWh) recorded an increase in the period of 2% over 2016; this increase was widespread in all zones of the Italian electricity market. Worthy of note is the significant decrease in hydroelectric production (-6.3 TWh, -14.3%), and a simultaneous drop in pumping (-0.3 TWh equal to -1.1%); the foreign balance rose by 0.7 TWh (+2%), especially in the final quarter, while wind power remained almost constant (-0.03 TWh, -0.2%); by contrast, photovoltaic production rose considerably by 3 TWh (+14%); lastly, thermoelectric production rose by 9 TWh (+4.6%) (source: Terna - Monthly Report on the Electricity System - Final balance December 2017)

Trend in energy sales prices

In 2017, the arithmetic mean price of energy on the Power Exchange (PUN) amounted to € 53.94 / MWh, up by 26% compared to the 42.74 €/MWh recorded in 2016 (source: GME).

The price was always above that of 2016, reflecting the higher cost of gas (Spark Spread always higher than 2016 up until August). By contrast, the final four month period saw a significant increase in the foreign balance, which involved a notable reduction in the Spark Spread and the margins of the thermoelectric plants in the energy markets.

The presence of a large installed photovoltaic capacity, totaling 17.8 GW (source: GSE-ATLASOLE), helps to create a price squeeze in the central hours; the price of the time profile has an average pattern that has a first peak between the hours of 8 and 11 and a second more marked peak between the hours of 18 and 22.



Legislative and regulatory framework

The following notes report the main legislative and regulatory events in 2017, which affect Tirreno Power's reference markets.

European regulations relating to the electricity system

Some European electricity system regulations are in the process of being defined, regarding balancing in particular. In particular, the European regulation on electricity balancing (Balancing Guidelines) is under discussion, which makes provision for the harmonization of European balancing markets with the definition of common regulations for the sharing of dispatching resources between the different transmission network operators. The definitive draft of the regulation was presented in November.

In addition, in August, the Regulation was adopted which defines the System Operation Guidelines: this relates to the common rules and requirements which electricity network operators must adopt for the safe management of the interconnected European system.

These regulations and their developments must be considered by the Italian regulatory authorities as part of the reforms being overseen in relation to electricity balancing (see subsequent notes).

In November, ACER (Agency for the Cooperation of National Energy Regulators) published two decisions regarding the technical themes of the process of harmonization of the European electricity markets (day-ahead and intraday markets). The most significant change for our country concerns the full harmonization at European level of the price limits on electricity prices in the European Union, with the possible introduction of negative price limits. This assumption, already set out in the past in some consultation documents presented by ARERA (Italian Regulatory Authority for Energy, Networks and the Environment), could materialize in 2018.

Again in November, after two years of intense negotiations, the European Council, the European Parliament and the European Commission reached an agreement over the reform of the Emission Trading System (ETS) in the post-2020 period (end of the current regulatory period). The move is considered fundamental for achieving the objectives set out in the Paris Agreement for the reduction of carbon dioxide emissions by 40% in the European Union territory by 2030 (with respect to the 1990 level): for the sectors subject to the ETS, the objective translates to a 43% reduction in emissions with respect to the level registered in 2005.

The agreement, approved by the European Parliament on February 6, 2018, includes significant changes to the system in order to accelerate the reduction in emissions and reinforce the stability reserve of the market. In addition, further guarantees were agreed for the European industry against the risk of carbon leakage and some support mechanisms were introduced to help the industry and the electricity sector to tackle the challenges of innovation and investments connected with the transition to a low-carbon economy.

In October, the European co-legislators also reached an agreement over a measure aimed at protecting the integrity of the ETS in the event of the UK's exit from the European Union, without harmonization agreements. The measure, which consists of invalidating, from 2018, the quotas assigned to UK firms in the case of a hard Brexit, aims to prevent the risk of UK operators, no longer tied to the system, transferring their available quotas to the market hence hindering the measures agreed to tackle their surplus.

Energy policy: the National Energy Strategy

Following a phase of consultation, in November the Government published the National Energy Strategy document, which defines the new national lines of development regarding energy, updating the first NES document published in 2013.

As regards the electricity system, the document sets the following objectives:

- reducing the price gaps on electricity with respect to the European Union average;
- increase in renewable energies in the electricity sector to 55% of consumption in 2030;
- phase-out of coal by 2025;
- system safety and adequacy.

In particular, in order to make the full phasing out of coal production by 2025 sustainable, the NES considers it necessary to adopt a series of additional initiatives with respect to those already needed to support the scenario of 55% of energy from renewable sources. The other measures also include a new installed capacity powered by gas.

As regards the capacity market, the NES confirmed its impending adoption, considering it a necessary tool for the methodical development of investments in the system and the maintenance, over time, of the requirements of the adequacy of the same.

Evolution of the wholesale electricity market regulations

Expected launch of the capacity market

In 2017, the mew mechanism for the remuneration of electricity production capacity (already set forth in resolution ARG/elt 98/11) was formally notified by the Ministry of Economic Development (“MiSE”), with the involvement of the Authority, at the Directorate-General for Competition of the European Commission.

The review of the regulation of the mechanism was put up for consultation by Terna at the end of 2016. The operating diagrams were supplemented by Terna and ARERA with some operating proposals regarding the methods of construction of the demand curve and the functioning of the option mechanism on the energy and dispatching services markets associated to the capacity remuneration system. In particular, in the summer, ARERA published a consultation document that defined the methods of participation in the auctions of demand resources, a structuring of prices of exercising the option based on the duration of the periods negotiated and proposed a limit on the balance premium for existing systems of 20,000 €/MW/year. These proposals, among other things, were debated with the European Commission which, on February 7, 2018, approved the regulation proposal notified by Italy in the summer, together with the mechanisms proposed by another 5 countries.

The entry into operation of the mechanism is subject to the implementing process which provides for the issuing of some deeds that acknowledge the indications received from the European Commission.

Therefore, we expect the publication of a framework resolution for the mechanism by the Authority in respect of which Terna must draw up a new proposed technical regulation.

The process concludes with the issuing of a decree of the Ministry of Development which, having consulted the Authority, is required to approve and launch the system.

At present, the capacity market is expected to start no earlier than the second half of 2018.

The electricity dispatching reform (so-called Project RDE)

By means of Resolution 393/2015/R/eel, the Authority launched a comprehensive reform of electricity dispatching (so-called project RDE), which incorporates a series of procedures, some of which have already been in place for some time. The project is in place for the long-term, both because the framework of reference European regulations is still not definitive, and because the development times of some measures and their implementation are fairly broad.

In implementation of this reform project, in 2016 the Authority issued a series of consultation documents targeted at defining the entities authorized to supply resources in the Dispatching Services Market and updating the rules for the valuation of imbalances.

The year 2017 saw the continuation of the process of definition of the rules through a series of provisions and consultations. More specifically, as regards the regulation of the authorization on the MSD (Dispatching Services Market), in June, by means of resolution 300/2017/R/eel, the Authority defined a project for the first-time opening of the market to electricity demand, to production units not already authorized and to storage systems. Within the domain defined by the new regulation, Terna launched a pilot project which makes provision for auctions for the forward procurement of resources provided by consumption units for a few months in 2017 and some market zones. In November, the resolution was subject to further application, with the start of a pilot project which defines the methods for the authorization of production units not currently authorized (with capacity of less than 10 MW). In addition, in November, Terna put a document up for consultation relating to the remuneration of voltage regulation: the project provides for the forward purchase of the service for a period of 5 years solely for some specific areas of the network.

As part of the process mentioned, provision is made for the start of new pilot projects concerning the relevant production units subject to voluntary authorization and mixed authorized virtual units (production/consumption).

In order to execute the provisions of the aforementioned resolution of the Authority for the authorization of new entities for participation in the Dispatching Services Market, in November, Terna presented a consultation for the partial reform of the Network Code.

As regards the regulation of imbalances, by means of two resolutions published in 2016, the Authority defined a temporary regime. Following a new consultation process, by means of the latest provision (resolution 419/2017/R/eel), the Authority further modified the temporary model of valuation of imbalances, pending the start of the regime mechanism through an organic reform based on nodal prices. In July, the new resolution introduced new non-arbitrage fees and modified the methods of calculation of the aggregate zonal imbalance. At the same time, the mechanism previously in force for the valuation of the actual imbalances of all unauthorized units was restored.

Incentives for renewable sources

On December 31, 2017, the incentive period regulated by Interministerial decree of June 23, 2016 for non-photovoltaic renewable sources concluded.

For the start of the new incentive period, probably lasting three years starting in 2018, the publication of a new decree is expected, whose framework is still not known.

Evolution of the gas sector legislation

The reform of the gas balancing market

In June 2016, the Authority defined the gas balancing code (valid from the thermal year 2016-17), in implementation of the relevant EU Regulation of 2014. The resolution also defines the start of the new gas balancing system, with the associated criteria for intervention from the balancing manager, the methods of determining the imbalance price and disclosure obligations. An organized market is also introduced for the exchange of stored gas accessible, in cases of operational or safety requirements, by the balancing manager too.

In addition, April 2017 saw the completion of a process to review the design of the gas balancing market, which involved the closure of the PB-gas (gas balancing platform) and its insertion in the MGAS (gas market).

The reform of the transfer of gas transportation capacity

Following two consultations held in 2015 on the matter, in 2016 the Authority issued the expected reform of the gas transfers for redelivery points that feed thermoelectric plants (pilot project that may later be extended to additional gas network users).

Resolution 336/2016/R/gas makes provision for the maintenance of an ex-ante transfer, with the introduction of a daily product by January 2017. At the same time, provision was made for a recalculation of the penalties applicable solely to the delivery point.
At the end of May, the consultation for the completion of the pilot project was published, which envisages a change of the products available, accompanied by a review of the imbalance methods. Resolution (512/2017/R/gas) was issued in July and makes provision not only for the realignment of the methods of calculation of penalties for surplus capacity, but the introduction of monthly transfer methods and a reduction in the consideration for daily assignment, making the procurement of gas more flexible with a potential reduction in fixed costs.

Gas transport service tariffs

In August, the Authority issued a resolution (575/2017/R/gas) in which it confirmed, for the years 2018-2019, what was proposed under consultation in July regarding the distribution of entry and exit fees based on a ratio of 40:60 (with respect to the previous 50:50 model).

Tirreno Power, in filing a complaint about some of its faults, including non-compliance with some primary regulations, challenged the provision before the Regional Administrative Court of Lombardy together with other electricity producers.
It is believed that said reform may negatively impact the structure of system costs, but at present it is not possible to estimate any economic impacts for Tirreno Power.

Acts directly relating to Tirreno Power

Start of proceedings for the evaluation of potential abuse in the wholesale electricity market

In June 2016, by means of resolution 342/2016/R/eel, the Authority had launched an investigation relating to alleged abusive behavior in the wholesale electricity market. The investigation, launched in accordance with the European REMIT Regulation, concerns two separate cases: the first refers to the alleged adoption of consumption unit scheduling strategies and plants powered by non-programmable renewable sources not consistent with the standards established by the Authority in previous measures. The second regards production units authorized to submit offers on the Dispatching Services Market that would not have offered their capacity on energy markets, encouraging Terna to establish units for balancing the system and subsequently increasing its costs. The investigation aims to evaluate the adoption of prescriptive or asymmetric adjustment measures in order to promote competition on the wholesale market.

By means of subsequent resolution (459/2016/E/eel), the Authority extended the scope of the investigation, initiating additional proceedings. Tirreno Power was notified of inclusion in the investigation as regards both situations, and the Company provided the information requested by the Authority regarding its offer conduct.

In relation to the investigation, by means of subsequent measures, the Authority ordered:

- ✓ by means of resolution 477/2016/E/eel, the transmission to the Antitrust Authority of the documentation regarding the offer conduct of some operators involved (which do not include Tirreno Power) in the investigation in consideration of potential violations of the competition protection regulations;
- ✓ by means of resolution 575/2016/R/eel, the methods of automatic retrocession to end customers of amounts eventually recovered following the proceedings launched;
- ✓ by means of resolution 609/2016/E/eel, some asymmetric adjustment measures for plants subject to proceedings (which do not include those of Tirreno Power available) declared to be essential for the safety of the electricity system;
- ✓ by means of resolution 813/2016/E/eel, it ordered the first dismissals of the individual proceedings launched against some operators. This was followed by further dismissals or containing prescriptive measures for various operators.

As regards Tirreno Power, in July, by means of resolution 511/2017/E/eel, the dismissal of the proceedings relating to the adoption of consumption unit scheduling was ordered. The outcome of the proceedings has still not been notified in relation to the other strand of the investigation and, at the current state of play, any negative consequences for the Company are considered unlikely.

The judgment of the Council of State on gas pricing 2014-2017

In 2015, the Council of State published the Judgment by means of which it definitively upheld the petitions of certain operators (including Tirreno Power) against the 2014-2017 gas transportation tariff system defined by the Authority (Council of State Judgment 3735/2015). As reported by the applicants, in fact, the regulator did not take into account specific legal rules (Decree 83/2012) that established the need for flexibility and cost-effectiveness measures for those entities subject to the highest consumption of natural gas (so-called tariff digression). The Judgment confirmed the stance previously adopted by the Regional Administrative Court of Lombardy and, therefore, the Authority was required to comply with the operative part of the ruling, by introducing measures to revise the pricing criteria for the 2014-2017 period.

Even though, in September 2015, by means of resolution 429/2015/R/gas, the Authority had launched a procedure for defining the criteria for compliance with the provisions of the Council of State, the recent resolutions regarding gas transfers (see previous paragraph) did not contain suitable measures for compliance with the provisions of the judgment and did not make reference to the procedure launched.
As a result of that, Tirreno Power and the other operators, already plaintiffs against the provisions relating to the 2014-2017 gas tariffs, initiated proceedings at the Lombardy Regional Administrative Court for compliance with the provisions of the relevant administrative judge which led to the application of the claimants being upheld. Therefore, the Authority was required to comply through the issuing of a provision that implemented the legal provisions regarding the flexibility and cost-effectiveness of the gas tariffs for entities with high consumption levels.
As a result of the July resolution in which the Authority revised the criteria for the structuring of the pilot project on gas transfers for the thermoelectric users (see above), Tirreno Power and the other claimants waived the proceedings considering the aforementioned resolution compliant with the judgment, with no economic effects for the company, as it had made no provision in the past for the recognition of any positive economic effect in respect of these proceedings.

Expected reimbursements for non-allocation of ETS allowances

As is well-known, Tirreno Power's Napoli Levante plant was excluded from the allocation of free emission allowances envisaged in the second period of the Emission Trading System (ETS 2008-12) due to the depletion of the reserves put at the disposal of production plants that entered into service during the period (so-called new entrants reserve). For such systems, the Legislator has made provision for a mechanism for the purchase with consideration of allowances reimbursed through a procedure established in recent years and based on the collections obtained by the GSE from the allocation of the allowances at auction in the next period (2013-2020). In this context, Tirreno Power was the holder of a credit of around Euro 28 million to be paid on the basis of the resources that are made available for reimbursements by auctions for the allocation of allowances of the new period started 2013.

The 2016 Stability Law introduced regulations that, by increasing the available resources, help speed up the expected reimbursement.
It should be noted that, in relation to the terms of the Restructuring Agreement, as discussed below, the credit of the ETS quotas indicated as at December 31, 2017, was transferred to Intesa Sanpaolo S.p.A. (as Issuer Bank), as guarantee for the obligations deriving from the new endorsement loan agreement.

In 2016, the first installment of the credit for an amount of around Euro 10.5 million was repaid (principal and interest) and, at the start of 2017, an additional installment of around Euro 7.7 million was repaid. The residual credit (Euro 10.2 million) was subject to retrocession in February 2018 in relation to the signing of the "Amendment Agreement", as described in the paragraph "Significant events after the close of the period".

The dispute over the recalculation of the capacity payment for the years 2010/2011

Following a complex administrative dispute, by means of Resolution 400/2014/R/eel, the Authority ordered the recalculation the fees to cover the second component for the remuneration of the production capacity for the years 2010 and 2011. In particular, the measure levied costly reimbursements on some operators, including Tirreno Power, which was required to repay a total of around Euro 5.5 million in 2014. Given the seriousness of the situation brought about by the resolution and in consideration of the lack of legitimacy of the measure, Tirreno Power joined other operators penalized by the latter in filing an appeal against the aforementioned resolution before the Lombardy Regional Administrative Court. In 2016, a hearing was held which led to a ruling which cancelled the measure contested and established the need to renew the procedure for determining the fee.

The Authority filed an appeal against the first instance ruling: the Council Chamber met last May and, at the end of December, the Council of State upheld the requests presented by the appellant, cancelling the first instance ruling, with no economic effects for the company, as it had made no provision in the past for the recognition of any revenue in relation to said provisions.

The regulation of imbalances for the period 2012-2014

The regulation of the actual imbalances in the electricity market for the period 2012-2014 was the subject of a long dispute which ended with the second instance cancellation of a number of the Authority’s resolutions. In respect of this cancellation, Terna has performed recalculations of imbalances by using the criteria defined by the Authority before the issuing of the acts found to be unlawful. This generated, for Tirreno Power, the billing of negative amounts in relation to the periods covered by the recalculation of approximately Euro 4.5 million in 2015.

Tirreno Power challenged, before the Lombardy Regional Administrative Court, the communication in which Terna acknowledged its desire to perform the recalculations.

Simultaneously, the Authority initiated proceedings for the adoption of a new regulation for the period in which the cancellation judgments determined legislative uncertainty. In that context, following a consultation process, the Regulator issued a new resolution, DCO 333/2016/R/eel, which takes account of the confidence generated in operators by the regulation in force at the time of its production planning, although subsequently cancelled. According to the resolution, Terna performed recalculations for the adjustments of the considerations, recognizing and reimbursing an amount of Euro 5.1 million to the company at the end of 2016.

The aforementioned resolution was challenged at the Regional Administrative Court of Lombardy by several other operators. Therefore, as indicated in the previous financial statements, in 2016 the company allocated the amount received as adjustment, in respect of the risk of having to repay the amount to Terna. At present, the risk is still considered likely.

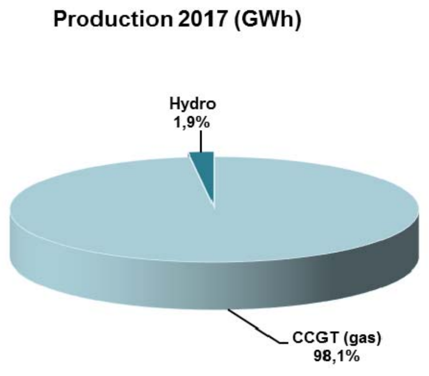
Production scenario

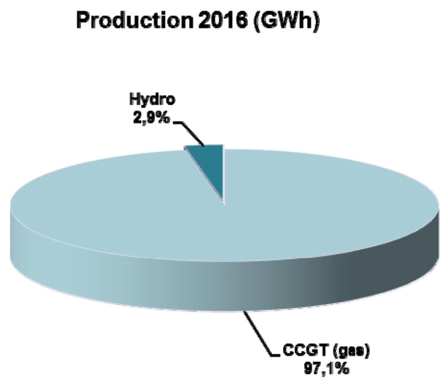
The **energy injected** in the period amounted to 6.58 TWh, up by 1.04 TWh compared to 5.54 TWh in 2016.

The following table provides details of the energy injected, with respect to the same period last year, broken down by unit and plant:

Energy Injected (GWh)	12.31.2017	12.31.2016	Diff.
By technology			
Combined Cycles	**6,451**	**5,380**	***1,072***
- TV5	1,788	1,586	*202*
- TV6	591	393	*198*
- VL5	2,978	2,193	*785*
- NA4	1,095	1,209	*(113)*
Renewable Sources	**128**	**162**	***(34)***
Total	**6,579**	**5,541**	***1,038***
			-
By plant			
Vado Ligure	2,978	2,193	*785*
Torrevaldaliga	2,379	1,978	*400*
Naples	1,095	1,209	*(113)*
Genoa	128	162	*(34)*
Total	**6,579**	**5,541**	***1,038***

(source: Company database)





In 2017, the energy injected totaled 6,579 GWh, marking an increase of 1,038 GWh compared to 2016 (+18.7%).

In particular, in the first half of 2017 the energy injected, amounting to around 50% of the entire year, came to 3,264 GWh (1,974 GWh in the same period of 2016), marking an increase of 1,290 GWh (+65.3%); this increase is due primarily to the rise in the average PUN (SNP), up from 37.04 €/MWh (average in the 1st half of 2016) to 51.17 €/MWh (average in the 1st half of 2017).

In the second half of 2017, the energy injected fell slightly by 252 GWh compared to the same period of 2016 (-7.1%), down from 3,567 GWh (2nd half of 2016) to 3,315 GWh (2nd half of 2017).

All combined cycle units benefitted, with respect to 2016, from an increase, of the Clean Spark Spread, which made them more competitive in all time brackets, with an increase in MGP (day-ahead market) sales deriving from a more favorable market scenario, verified primarily in the first part of the year and in the months of August and November 2017.

Some regional situations verified in the network (especially in the Torrevaldaliga and Napoli Levante areas) consequently permitted opportunities for excellent performances on the MSD (Dispatching Services Market).

In 2017, the Vado Ligure plant injected 2,978 GWh of energy into the network, 785 GWh more than in 2016, benefitting from both higher margins on the Dispatching Services Market and on the energy market.

The Torrevaldaliga Sud plant recorded an increase in production volumes of 400 GWh compared to the previous year; both units contributed to this result, taking advantage of greater market margins.

The Napoli Levante plant, despite the planned shutdown which concerned the unit for the whole month of October until the middle of November, recorded production of 1,095 GWh in 2017 (-113 GWh compared to 2016), with high production volumes in the Dispatching Services Market, especially during night-time hours and at weekends.

The production from renewable sources in 2017 amounted to 128 GWh, marking a decrease of 34 GWh compared to the same period in 2016, due to the low rainfall recorded throughout 2017.

Plant maintenance

The Vado Ligure plant underwent scheduled maintenance (minor inspection) on unit VL5 in the first half of April 2017. The main activities carried out were: minor inspection of the gas turbines and cleaning of intake structures.

As regards the Torrevaldaliga Sud plant, the TV6 unit was subject to scheduled maintenance (Major Inspection), which started in 2016 and finished in March 2017.

The Napoli Levante site was subject to scheduled maintenance (Major Inspection) in August and November 2017; in particular, the general overhaul of the gas turbine, the steam turbine and the two generators was carried out.

As regards the hydroelectric sector, September saw the launch of the project for the adjustment works in respect of the 1000-year flood of the Zolezzi dam. Activities are expected to be completed in the last few months of 2018.

Damage to plants

With reference to the Vado Ligure plant, note that October 2017 saw the replacement of a hub of the switch relating to gas turbine 52, due to the breakage of the rail turnout; while in November refurbishment work was necessary on the measuring transformer (TA) relating to the main transformer of gas turbine 52.

As regards the Torrevaldaliga Sud Plant, between May and June, gas turbine B was registered as out-of-service due to the damage of a turbine blade (stage one bucket). It should also be noted that, in October, a breakage was recorded on gas turbine A, with the subsequent replacement of the AFTs with TGAS (part of the combustion chambers).

With reference to the Napoli Levante plant, no significant faults or accidents were recorded.

Environment and Safety Policy

Introduction

In 2017, the Company's main objective continued to be to reach high levels of environmental protection and worker safety, both internally and with respect to third party companies.

The Environmental Policy is inserted in the Environmental Statements of the sites on which EMAS registered thermoelectric plants are built and constitute one of the means by which the knowledge of corporate conduct in the environmental field is disseminated.

The organization

In order to effectively achieve the maximum levels of environmental protection and safety, the Company's organizational model provides special powers of attorney with which the General Manager assigns the Heads of the Production units full powers for the fulfillment of the duties related to the protection of the environment, of workplace health safety and of plant safety.

The tools

The main tools used for the implementation of the Company's environmental policy are:

1. *The environmental management systems*

The Company has chosen to adopt the EMAS registration (Eco Management and Audit Scheme) for all of the thermoelectric plant sites.

The EMAS registration is the most prestigious environmental certification in Europe. During 2017 such records were maintained and / or renewed for the Naples and Torrevaldaliga sites.

By contrast, for Vado Ligure, certification UNI EN ISO 14001 was renewed for the combined cycle unit.

2. *Training and information*

Environmental training and information are used to improve employees' skills and to increase their professionalism.

In 2017, activities continued aimed at staff training on environmental issues, taking into account the evolution of applicable regulations.

The focus on environmental training has made it possible to increase the number of staff, operating in both the main structure at the production sites, in possession of the title of Qualified Environmental Auditor.

3. *Environmental reporting*

The environment management systems of certified sites provide periodic reports on data and environmental performances that are subject to management review for the analysis of the comments and non-conformities, in order to identify and implement the necessary corrective actions.

The main environmental events

The main environmental events by production site were:

Vado Ligure

- obtainment of the decree for the review of the AIA (integrated environmental authorization) from the MATTM (Ministry of Environment and Land and Sea Protection) (by means of prot. DM - ministerial decree - no. 334 of 12/7/2017), whose notice was published in the Official Journal of 1/4/2018;
- performance by Arpal of an on-site inspection between September 25 and 27, who took samples and conducted surveys, considered useful by ISPRA for the purposes of the planned ordinary inspection regarding AIA decree no. 323 of 12/31/2014, which did not highlight any non-conformities;
- by means of memorandum 29221 of 12/18/2017, the MATTM informed all AIA plant operators of the program of ordinary controls required by the AIA, for the year 2018.

Torrevaldaliga Sud

- performance by the Inspection Group, from July 24 to 25, of the ordinary inspection in implementation of the authorization decree AIA no. DVA - DEC - 2011-0000140. The reports issued did not highlight any regulatory non-compliance;
- by means of resolution no. 60/2017, the ETS Committee approved the Plan for the Monitoring of greenhouse gas emissions;
- by means of memorandum 29221 of 12/18/2017, the MATTM informed all AIA plant operators of the program of ordinary controls required by the AIA, for the year 2018.

Napoli Levante

- on 8/1/2017 (prot. no. 3280) TP informed Ispra and MATTM of the general shutdown to allow the performance of extraordinary maintenance works forming part of the phase of Major Inspection of the manufacturer's maintenance program;
- by means of memorandum 29221 of 12/18/2017, the MATTM informed all AIA plant operators of the program of ordinary controls required by the AIA, for the year 2018.

Safety

The Company pays special attention to safety-related problems.

It continued, in the year 2017, the activities aimed at maintaining the BS OHSAS 18001 certifications for the 4 Tirreno Power Production Units involved, as well as for the Rome site.

On December 19, 2017 the Certification Body Certiquality also certified that all Tirreno Power production units possessed the BS OHSAS 18001 certification.

The BS OHSAS 18001 (British Standard 18001 Occupational Health and Safety Assessment Series) defines the requirements of the Worker Health and Safety Management System. These requirements are verified by a qualified body, which, in the event of a positive outcome, issues the relevant Certificate.

In 2017, all production sites passed the planned renewal or supervision audits performed by the Certification Body Certiquality.

Furthermore, the Vado Ligure plant became subject to Legislative Decree 105/2015 again (Seveso III law) and, more specifically, art. 13 (lower threshold), and adopted a Safety Management System compliant with standard UNI 10617:2009. In this regard, on November 15, 2017, the first inspection visit of the delegated Commission of the Liguria Region was carried out in accordance with art. 27, paragraph 6 of Legislative Decree 150/2015, with a positive outcome.

No accidents occurred in 2017 involving Tirreno Power employees.

Three accidents occurred at the Naples plant involving personnel employed by external firms, all classified as minor.

Training, information and education

In 2017, training was provided on safety in order to ensure the necessary continuity of training, as required by Legislative Decree 81/08 and the State-Regions Agreements.

The focus on safety training has made it possible for various collaborators that operate in the production site to attain the qualification of internal auditor for the OHSAS standard.

Risk Assessment Documents (DVR)

The updating the Risk Assessment Documents of the company's Production Units and the Rome site continued in 2017 in compliance with the provisions of Legislative Decree 81/08 and subsequent amendments.

No change to risks emerged from the updates.

Investment plan

During 2017, the Company reported investments totaling Euro 31,889 thousand, of which Euro 31,494 thousand relating to tangible assets and Euro 395 thousand to intangible assets (net of CO_2 emissions rights).

With regard to intangible assets, investments are attributable to new licenses and the development of applications.

As for tangible assets, it is noted that in the Napoli Levante plant, a total of Euro 5,097 thousand was invested, mainly dedicated to the scheduled shutdown for the Major Inspection (Euro 4,376 thousand).

A total of Euro 8,136 thousand was invested for the Vado Ligure plant, primarily for the purchase of blades for the gas turbine (Euro 5,000 thousand); for Euro 1,588 thousand for the continuation of the works commenced last year for the segmentation and protection of the site, made necessary following the abandonment of the coal units, in order to make the VL5 combined cycle independent and autonomous and, lastly, extraordinary maintenance work amounting to Euro 203 thousand was performed on the pier (which is also expected to continue into 2018 and 2019).

As regards the Torrevaldaliga Sud site, a total of Euro 14,880 thousand was invested, mainly attributable to the purchase of Package 5 (Euro 12,065 thousand), which will involve the replacement of the first 6 rotor and stator sections of each compressor of the three gas turbines and, for Euro 873 thousand, the completion of the new reverse osmosis system for the production of demineralized water.

By contrast, as regards hydroelectric power plants, a total of Euro 3,088 thousand was invested, which mainly concerned safety works at all plants, with particular reference to the Operating Department of the San Michele plant, strengthening of the Zolezzi dam and the Vizzà and Pescia plants.

Human resources and organization

Legislation and Personnel Administration

The first half of 2017 saw the completion of the administrative management of two defensive solidarity contracts signed at the end of 2014, expired respectively on October 31, 2016 for the management staff and personnel of the Naples and Civitavecchia plants, and on November 9, 2016 for the Vado Ligure Plant personnel.

In this regard, it should be noted that, in the first half of 2017, activities were completed, already in progress in 2016, for the recovery of the residual credit accrued from INPS (National Social Security Institute) due to the company's advance payment of the indemnity set forth for workers subject to the CIGS (extraordinary wage guarantee fund).

The value of the credit recovered in 2017 amounted to around Euro 0.9 million.

A receivable of around Euro 0.3 million is still due relating to TFR (Post-employment benefits) accrued by the employees concerned by the solidarity contract, which the previous legislation on social shock absorbers required the INPS to pay, and whose recovery was expected at the time of termination of the employment of the individuals concerned.

In 2017, at the time of the issuing by INPS of the authorizations relating to the CIGS, interpretative guidance of the institution came to light which considers the old legislation inapplicable to the solidarity contracts in force at the time of the application of the reform of the social shock absorbers and, consequently, the employer would incur the cost of TFR accrued by the employees involved in the solidarity contract. Pending the resolution of the interpretative question, it was deemed appropriate to allocate the aforementioned amount to the provision for risks, to take account of the likely unfavorable interpretation for the company.

By contrast, as regards the two applications presented to the Ministry of Labor and Social Policies in December 2016 relating to:

- Cassa Integrazione Guadagni Straordinaria (extraordinary wage guarantee fund) for company crisis for the personnel at the Naples, Rome and Civitavecchia sites,

- Cassa Integrazione Guadagni Straordinaria (extraordinary wage guarantee fund) pursuant to art. 44, paragraph 11-bis of Legislative Decree 148/2015 (companies operating in the areas of complex industrial crisis) for the personnel at the Vado Ligure site,

it should be noted that, in 2017, the ministerial decrees were issued authorizing the granting of the social shock absorbers in question.

As a result of these provisions, INPS subsequently issued the required administrative authorizations for the adjustment of the sums paid in advance by the company on behalf of the institution, and, therefore, it was possible to recover, in 2017, the entire credit for the Cassa Integrazione Guadagni Straordinaria accrued from said entity, amounting to around Euro 1.3 million.

Use of the social shock absorbers in question allowed a personnel cost saving in 2017 of around Euro 2.9 million, net of the expected cost for using the CIGS (additional contribution) of Euro 0.4 million and the supplementary indemnity of INPS treatment, as set out in the agreements with the social parties for Euro 0.8 million.

With reference to the redundancy management plan forming the object of the trade union agreement of December 2, 2016, due to the application of the different initiatives/exit opportunities set out by the company in the voluntary redundancy plan, note that the total cost of the procedure came to around Euro 17 million. For more details on the redundancy plan, please see the next paragraph.

As regards company performance-related pay, in the second half of 2017 a trade union agreement was signed which defined the objectives and criteria for the payment of productivity remuneration. The total cost amounted to Euro 0.8 million, of which Euro 0.5 million already paid in 2017 and Euro 0.3 million which will be disbursed in July 2018.

Lastly, it should be noted that, in application of the National Collective Labor Agreement for workers in the electricity sector, renewed on January 25, 2017, payment was made, effective of February 1, 2017, of the first increase in the minimum total salary of an average of Euro 35 (change of +1.5%) and provision was made for an increase in the contribution set aside for company welfare (supplementary pension and supplementary healthcare assistance) of Euro 10 for each employee and for each monthly of salary. The total effect on personnel costs for 2017 amounted to around Euro 0.25 million.

Organizational Development and Industrial Relations

Throughout 2017, the company structures operated under the Cassa Integrazione Guadagni Straordinaria (extraordinary wage guarantee fund) arrangement, managing the internal turnover of professionals, consistent with the organizational needs and with the professional skills of the employees involved.

Redundancy plan

Throughout the year, the structure and the company were committed to managing 181 redundancies declared at the end of 2016, leveraging the numerous initiatives of the trade union agreement signed on December 2, 2016.

The agreement specified not only the incentive and redeployment initiatives, but also the management of the surplus resources still existing as at December 19, 2017, i.e. the compulsory dismissal due to application of the legal classification lists and access to additional redeployment or financial incentive instruments.

The first period of voluntary participation closed on March 20, 2017, with 91 employees signing up: 45 workers who will be entitled to a pension by 2024 and 46 workers who will not meet the pension requirements in 2024.

For those not signed up to the financial incentive plan, the company launched initiatives, consistently with the aforementioned trade union agreement, targeted at the redeployment (training and outplacement, reindustrialization with potential redeployment at third party companies that will set up on the Vado Ligure site, job posting of shareholders, internal solidarity in the electricity sector, proposals by Tirreno Power).

The company held frequent meetings with the trade unions, discussing a number of issues, connected to both extraordinary events and the management of more customary topics. Additional solutions were devised to limit the social impacts of the agreed exit plan, commitments were formalized to internally reabsorb part of the surplus personnel and agreements were reached on performance-related pay, managing an especially difficult situation in order to limit disputes.

As regards the solutions agreed with the trade unions to promote management of the agreement and limit the social impacts, note should be taken of the outcomes of the meeting at the end of September which saw the reopening, up until November 30, of a period of voluntary participation in the economic incentive (one-off payment) specified in the agreement of December 2, 2016, and the extension of the inventive for retiring staff who will meet the pension requirements in 2025 and 2026.

The new openings of the voluntary participation periods and the other initiatives contained in the trade union agreement, including 41 internal reabsorptions at Tirreno Power and 14 external redeployments, helped greatly reduce the number of surplus staff.

On December 19, 2017, the date set and agreed with the trade unions, for the naming of the redundant staff, letters of dismissal were delivered to the staff who, owing to their professional profile and due to the application of the legal classification lists, were deemed surplus to requirements. The recipients of the letter of dismissal, as required by the agreement of December 2, 2016, were offered 3 solutions to be defined in a conciliation statement and relinquishment of any dismissal appeal. Only two of these did not accept any proposal and did not sign any conciliation statement.

Training

The training provided in 2017 saw the start of an extremely precise training plan targeted at the provision of training courses on the environment and safety, aimed at updating the skills and certifications of employees and/or retraining of personnel, and the participation in managerial training courses and events, targeted at helping management to deal with a difficult period for the company.

The managerial training saw 4 meetings focused on leadership, trust building, team motivation & individual motivation, change management, productive feedback and communication skills.

Almost all costs incurred for the aforementioned training activities were financed by interprofessional funds (Fondimpresa).

Information & Communication Technology

A process of dematerialization was launched in the application domain in 2017, which saw the release of the application for the digital management of purchase requests. This application is based on the introduction of collaborative processes that facilitate document and authorization management and integration with the ERP.

During the year, the company also implemented the “Infobudget” application, replacing the tool in use known as “Cezanne BDG”, for the management of the budget and of forecasts relating to personnel costs; it was replaced in order to guarantee the integration with the personnel information system in relation to personal data and the final balances of monthly salaries.

New functionalities were released for the Energy Management Department, capable of automating the sending and receiving of flows to and from Terna’s portals; new functionalities were also implemented on the application for the management of the technical data, e.g. the exposure of “metering” to fifteen minute and secondary values.

From an infrastructural point of view, 2017 saw the assignment of the personal computer supply contract, which are expected to be distributed in the first few months of 2018. The porter service automation project was also completed in Naples.

As regards telecommunications, the new outsourcing contract was assigned in 2017. This will deliver estimated annual savings in 2018 of around 40% compared to 2017 costs.

Obligations regarding Legislative Decree no. 231/01

By means of resolution of the Board of Directors of May 25, 2017, owing to the expiry of office of members of the Supervisory Board, said members of the Board were subsequently appointed for the next three-year period.

At present, the Supervisory Board is composed of an internal member (responsible for Company’s legal department) and two external members.

The MOG (organization and management model) was updated in 2016 with the insertion of a special section relating to eco-crimes, the offence of self-laundering and the revision of the information flows required by the Model in order to adjust them into line with the new organizational macro-structure. The latter activity, together with the revision of the Company’s Code of Ethics was approved by the Board of Directors at the meeting on June 22, 2016. Based on the flows relating to 2017, the Supervisory Board reported positively to the Board of Directors on the effectiveness of the Model for the prevention of predicate offences.

Operating performance during the year

The chart below shows, in line with ESMA Recommendation on Guidelines on Alternative Performance Measures, the criteria used for the construction of the reclassified statements that contain alternative performance indicators with respect to those obtained directly from the financial statements:

Gross operating profit: an operating performance indicator, calculated as "Operating income" plus "Depreciation, amortization and write-downs" and "Provisions".

EBITDA: an operating performance indicator, calculated as "Operating income" plus "Depreciation and amortization."

Net fixed assets: calculated as the difference between the "Non-current assets" and "Non-current liabilities" with the exception of:

- "Payables for loans";
- "Provisions for risks and charges";
- "Post-employment and other employee benefits";
- "Liabilities for deferred taxes".

Net working capital: defined as the difference between "Current assets" and "Current liabilities" with the exception of:

- "Payables for loans";
- "Cash and cash equivalents";
- "Provisions for risks and charges";
- the bank current account advances and bank current account debt exposures included in "Other current financial liabilities."

Net capital employed: calculated as the algebraic sum of "Net current assets", "Net working capital" and funds.

Net financial debt: defined as the sum of "Payables for loans", bank c/a advances and debt exposures on bank current accounts included in "Other current liabilities", net of "Cash and cash equivalents" not previously considered in the definition of other balance sheet indicators.

Return on Investment (ROI): defined as the ratio between operating profit and net average capital employed (opening and closing).

Return on Sales (ROS): defined as the ratio of operating profit to total revenues.

Equity yield: defined as the ratio between the net profit and the share capital plus the share premium reserve.

Unit revenue from energy sales (€/MWh): calculated as the ratio of revenues from energy sales for the period and energy sales in the period.

Incidence of financial expenses on total revenues: defined as the percentage ratio between the financial expenses in the period and the total revenue for the period.

Reclassified Income Statement

The values of the reclassified income statement are reported in Euros, without decimals. For a better disclosure, comments on the individual items are expressed in thousands of Euro.

(Euro)	Dec-31-17	Dec-31-16	difference
Revenues	1,000,623,626	738,479,690	262,143,936
Other revenues	4,358,038	10,261,641	(5,903,603)
Total revenues	**1,004,981,663**	**748,741,331**	**256,240,332**
Own work capitalised	1,021,551	286,282	735,269
Consumption of raw materials	(864,001,876)	(627,580,581)	(236,421,295)
Personnel costs	(20,113,720)	(23,750,309)	3,636,589
Service costs	(24,358,344)	(23,156,521)	(1,201,823)
Other costs	(25,586,041)	(19,838,318)	(5,747,723)
Total costs	**(933,038,429)**	**(694,039,447)**	**(238,998,982)**
Gross operating profit	**71,943,234**	**54,701,884**	**17,241,350**
Provisions	(8,693,754)	(32,904,393)	24,210,639
EBITDA	**63,249,480**	**21,797,491**	**41,451,989**
Amortisation, depreciation and write-dow	(55,984,631)	(59,976,249)	3,991,618
EBIT	**7,264,849**	**(38,178,758)**	**45,443,607**
Financial expenses	(21,735,372)	(20,937,621)	(797,751)
Financial income	382,027	426,641	(44,614)
Pre-tax profit	**(14,088,496)**	**(58,689,739)**	**44,601,243**
Taxes	625,354	-	625,354
Net income for the period	**(13,463,142)**	**(58,689,739)**	**45,226,597**

Electricity sold in 2017 totaled 16,464 GWh, an increase of 2,147 GWh compared to the previous year.

Electricity sold in the open market amounted to 8,426 GWh, marking an increase of 1,036 GWh compared to the previous year, while energy sold on the Power Exchange recorded an increase of 1,111 GWh.

The energy balance is presented below with a reconciliation of the quantity of energy purchased and unbalanced that makes it possible to reconcile the volumes sold with the actual energy injected to the grid.

Energy injected, purchased and sold (GWh)	12.31.2017	12.31.2016	Diff.
Energy injected	**6,579**	**5,541**	***1,038***
Energy purchased	**9,888**	**8,812**	***1,076***
Energy sold	**16,464**	**14,317**	***2,147***
-on free market	8,426	*7,390*	*1,036*
-on Power Exchange	8,038	*6,927*	*1,111*
Imbalances	**(4)**	**(37)**	***33***

Revenues amounted to Euro 1,000,624 thousand, an increase of Euro 262,144 thousand compared to the previous year (+35.5%).

Revenues - (thousands of Euro)	12.31.2017	12.31.2016	Diff.
Free Market	462,468	333,433	*129,035*
Power Exchange	536,592	404,906	*131,686*
Other	1,563	140	*1,423*
TOTAL	**1,000,624**	**738,480**	***262,144***

The increase relates to the higher sales volumes attributable to the trading in the Dispatching Services Market, thanks to the excellent performances of the NA4, TV5 and VL5 units and greater sales volumes in the day-ahead market as a result of the higher PUN level recorded, predominantly in January, June, August and November.

The item “Other” refers mainly, for Euro 685 thousand, to revenues generated by the sale of materials as a result of the clearing of the warehouses relating to the coal facilities decommissioned and, for Euro 713 thousand, to the reimbursement of excise duty obtained from the Customs Agency, as a result of the requests presented following the sales of coal and combustible oil made in 2016.

Other revenues amounted to Euro 4,358 thousand, compared to Euro 10,262 thousand in 2016 and refer to the accounting of income attributable primarily to:

- repayment of the redundancy surplus of the voluntary redundancy provision for Euro 3,492 thousand, following the completion of the personnel restructuring procedure in December 2017;
- the release of the provisions for risks for Euro 382 thousand, mainly due to the repayment of the Escrow security deposit of Tirreno Solar for Euro 112 thousand and the adjustment, for Euro 270 thousand, of the layoff provision and the provision disputes and litigation.

In 2016, other revenues mainly to the recognition of contingent assets (Euro 9,975 thousand), attributable to Terna's adjustment of the recalculation of 2012-2014 imbalance charges (Euro 5,229 thousand), adjustments to energy items of previous years (Euro 1,551 thousand), mainly due to the definition, by Terna, of the adjustment of the second component of the 2011 capacity payment (Euro 1,121 thousand), the reduction in liabilities due to personnel for bonuses and welfare for 2013 and 2015 (Euro 1,255 thousand) and the repayment of Euro 967 thousand to the provision for risks.

The **cost of raw materials consumption** amounted to Euro 864,002 thousand, an increase of Euro 236,421 thousand compared to the previous year.

The cost of fuel consumed in the period amounted to Euro 330,575 thousand, up by Euro 99,482 thousand compared to the cost incurred in 2016. The increase in the cost was determined both by the volume effect resulting from greater production of CCGT (gas consumption increases by about 19.1%) and the price of gas effect (PMP increases by about 20.1%).

Charges related to the purchase of energy and operation of the power exchange amounted to Euro 530,261 thousand, an increase of Euro 136,642 thousand compared to 2016. A significant increase of Euro 124,225 thousand was recorded in purchases of energy on the power exchange, made to cover contractually agreed sales.

Purchases in the Dispatching Services Market (Euro 38,585 thousand) recorded a sizeable increase of Euro 11,195 thousand compared to the previous year, due to more trading on said market.

Energy purchases for imbalances stood at a negative Euro 6,060 thousand, up by Euro 1,193 thousand compared to 2016 (a negative Euro 4,867 thousand), due primarily to higher imbalance volumes (as a result of greater production) and higher unit imbalance costs which, due to a higher PUN value and prices on the DSM in particular, rose by roughly 25%.

Personnel costs amounted to Euro 20,114 thousand, a decrease of Euro 3,636 thousand compared to the figure recorded in 2016.

The decrease is primarily attributable to the Cassa Integrazione Straordinaria (extraordinary wage guarantee fund) arrangement adopted on December 19, 2016 and terminated on December 18, 2017, which saw the involvement of all company employees, with savings of Euro 2,872 thousand in personnel costs, as well as the effects of the decrease in average numbers compared to 2016, down from 382.7 in 2016 to 331.8 in 2017.

Average amount	12.31.2017	12.31.2016	Diff.
Executives and Middle Managers	43.3	43.5	*(0.2)*
Employees	208.3	226.1	*(17.8)*
Workers	80.2	113.2	*(33.0)*
TOTAL	**331.8**	**382.7**	***(51.0)***

The headcount at December 31, 2017 amounted to 240 employees, compared to 371 employees at December 31, 2016.

Service costs in the period amounted to Euro 24,358 thousand, an increase of Euro 1,202 thousand compared to the previous year.

Other costs amounted to Euro 25,586 thousand, an increase of Euro 5,748 thousand compared to the previous year.

In particular, higher expenses were recorded for emissions rights (Euro 4,328 thousand) as a result of higher emissions in the period (approx. 406 Kton).

Gross operating profit came to Euro 71,943 thousand, compared to Euro 54,702 thousand realized in 2016.

Provisions amounted to Euro 8,694 thousand, and mainly related to:

- for Euro 3,169 thousand, the adjustment to the provision for risks and charges relating to oil and fuel oil tank dismantling works at the Torrevaldaliga Sud (Euro 1,980 thousand) and Vado Ligure (Euro 1,189 thousand) plants;
- for Euro 2,242 thousand, the value adjustment of part of the stocks with a high risk of not being used. For more details, please refer to the comments on inventories in note no. 7;
- for Euro 1,190 thousand, the adjustment to the estimates relating to the ICI/IMU (municipal property tax/single municipal tax) disputes in progress for previous years;
- for Euro 310 thousand, the estimate of the state fee pending the definitive release of the new concession for the areas of the Naples Plant;
- for Euro 347 thousand, the adjustment to the estimate relating to the catchment basin additional fees requested for previous years and attributable to the hydroelectric plants;
- for Euro 419 thousand, the estimate of the charges to be paid to advisors in the form of success fees in relation to the Waiver on the debt Restructuring Agreement with Banks, signed on February 1, 2018, as indicated hereinunder.

EBITDA amounted to a positive Euro 63,249 thousand compared with a positive Euro 21,797 thousand in the previous year. The improvement is mainly due to the higher market margins, the saving of personnel costs and, in general, the reduction in other costs, in addition to lower provisions in the year compared to the previous year which, among other things, included an allocation of Euro 20,229 thousand to the staff redundancy provision.

Amortization, depreciation and write-downs (Euro 55,985 thousand) decreased by Euro 3,992 thousand compared to the previous year.

In particular, the decrease in depreciation is mainly due to the lengthening of the useful life of the gas turbine components (blades and burners) of the Torrevaldaliga Sud power plant, following the revision of the estimated length of the shutdowns for the Major Inspections on the basis of the updated assumptions of the hours of operation of the plants. In fact, this modification reduced depreciation by Euro 4,679 thousand in 2017.

The **operating result** was therefore positive by Euro 7,265 thousand, compared to a negative operating result recorded in the previous year amounting to Euro 38,179 thousand.

In 2017, **financial expenses** totaled Euro 21,735 thousand, an increase of Euro 797 thousand compared to the previous year.

The variation in the period is primarily attributable to the changes connected with the hedging contract (Interest Rate CAP) on “Term Loan A”, described in note no. 6.

Financial income amounted to Euro 382 thousand, essentially in line with the Euro 427 thousand recorded in 2016.

The **net loss** for the year amounted to Euro 13,463 thousand, compared to a net loss of Euro 58,690 thousand in the previous year.

Positive **taxes** for the year were recorded, amounting to Euro 625 thousand, due to the surplus of the reversals of deferred tax liabilities resulting from the completion, for IRES purposes, of the time period of the tax depreciation of the tangible assets with respect to the economic-technical depreciation (statutory depreciation).

By contrast, no current **income taxes** were recorded as the company closed the year 2017 with a tax loss.

Analysis of the capital structure

Reclassified Balance Sheet

The values of the reclassified income statement are reported in Euros, without decimals. For a better disclosure, comments on the individual items are expressed in thousands of Euro.

(Euro)	Dec-31-17		Dec-31-16		difference
Net fixed assets					
Tangible and intangible assets	746,647,118		755,470,182		(8,823,063)
- of which CO2 rights	*19,342,720*		*7,724,367*		*11,618,354*
Other net non-current assets/(liabilities)	34,793,595		56,520,582		(21,726,987)
Total	**781,440,713**		**811,990,763**		**(30,550,050)**
Net working capital					
Inventories	14,501,991		21,292,759		(6,790,768)
Trade receivables	91,956,711		164,743,553		(72,786,843)
Trade payables	(88,026,342)		(154,363,851)		66,337,509
Other net current assets/(liabilities)	16,974,898		25,811,408		(8,836,510)
Total	**35,407,257**		**57,483,869**		**(22,076,612)**
Gross capital employed	**816,847,971**		**869,474,633**		**(52,626,662)**
Other provisions					
Provisions for risks and charges	(83,267,221)		(101,797,548)		18,530,327
Post-employment benefits and other emplo	(14,284,952)		(17,136,349)		2,851,396
Deferred tax liabilities	(36,386,724)		(37,389,448)		1,002,724
Total	**(133,938,897)**		**(156,323,345)**		**22,384,448**
Net capital employed	**682,909,074**	**100%**	**713,151,288**	**100%**	**(30,242,214)**
Shareholders' equity	**185,583,009**	**27%**	**198,724,823**	**28%**	**(13,141,814)**
Net financial debt	**497,326,065**	**73%**	**514,426,465**	**72%**	**(17,100,400)**

Tangible and intangible assets recorded a decrease of Euro 8,823 thousand, mainly due to the amortization/depreciation of Euro 55,985 thousand for the period exceeding the increases, amounting to Euro 36,036 thousand (with the exclusion of CO_2 emission rights), primarily attributable:

- for the Napoli Levante plant, to the scheduled shutdown for the Major Inspection amounting to Euro 4,376 thousand and the capitalization of spare parts deemed strategic as a result of the current operation of the plants and already present in company warehouses, totaling Euro 2,173 thousand;
- for the Vado Ligure plant, to the purchase of spare blades for Euro 5,000 thousand, as well as for the continuation of site segmentation and protection works for Euro 1,588 thousand;
- for the Torrevaldaliga Sud plant, to the purchase of more high-performing blades (Package 5) for Euro 12,065 thousand and the capitalization of spare parts deemed strategic as a result of the current operation of the plants and already present in company warehouses, totaling Euro 1,897 thousand and, lastly, the completion of the new osmosis system for Euro 873 thousand;

- finally, as regards hydroelectric power plants, a total of Euro 3,088 thousand was invested, which mainly concerned safety works at all plants, with particular reference to the Operating Department of the San Michele plant, strengthening of the Zolezzi dam and the Vizzà and Pescia plants.

The higher value of the emission rights quotas acquired with consideration amounted to Euro 11,618 thousand and relates to greater production.

Other net non-current assets/(liabilities) recorded a decrease of Euro 21,727 thousand, due mainly to the decrease in VAT credits following the collection of the 2016 annual amount (Euro 23,000 thousand) at the end of 2017.

Inventories recorded a decrease of Euro 6,791 thousand compared to December 31, 2016.

This variation relates essentially to the decrease in inventories of materials, amounting to Euro 6,658 thousand resulting from a careful historical analysis of movements in warehouses, rendered necessary on the basis of the changed operation of the plants and maintenance programs, which involved, on the one hand, the capitalization under fixed assets of spare parts considered strategic and, on the other, the write-down of part of the stocks with a high risk of not being used. For more details, please refer to the comments on inventories in note no. 7;

Trade receivables fell by Euro 72,787 thousand. This change is primarily attributable to the effect, from December 1, 2016, of the start of the weekly settlement with GME (Energy Markets Operator); in fact, at the end of 2016, power exchange sales of November and December 2016 still had to be settled.

The balance of **Trade payables** fell by Euro 66,338 thousand compared to December 31, 2016. This change, as we have seen for trade receivables, is primarily attributable to the effect, from December 1, 2016, of the start of the weekly settlement with GME (Energy Markets Operator); in fact, at the end of 2016, power exchange purchases made November and December 2016 still had to be settled.

Other net current assets/(liabilities) registered a decrease of Euro 8,837 thousand compared to December 31, 2016. This variation is a result of the combined effects of:

- the decrease in current assets of Euro 1,690 thousand compared to the previous year, mainly attributable to the collection of the 2015 annual VAT credit (Euro 21,000 thousand), the collection of the VAT credit of the 2nd quarter of 2016 (Euro 6,100 thousand), the collection of the VAT credit of the 1st quarter 2017 (Euro 11,500 thousand), partially offset by the VAT credit generated in the year amounting to Euro 33,248 thousand.
- the increase of Euro 9,252 thousand in current liabilities compared to the previous year, attributable mainly to the increase of Euro 4,328 thousand in payables for the delivery of CO_2 quotas for fulfillment of the 2017 emissions obligation, the increase in payables for personnel fees and due to the tax authorities of Euro 2,931 thousand and Euro 2,020 thousand, in relation to the Redundancy plan.

The **Provision for risks and charges** decreased by Euro 18,530 thousand as a result of the movements better described in the notes.

The **Net capital employed** therefore amounted to Euro 682,909 thousand (Euro 713,151 thousand at December 31, 2016).

Shareholders' equity stood at a positive Euro 185,583 thousand, which changed with respect to December 31, 2016, essentially due to the loss in the period, amounting to Euro 13,463 thousand, as well as the effect of the registration, pursuant to IAS 39, of the Interest Rate CAP reserve (a positive Euro 321 thousand), as a result of the "Interest Rate CAP" hedging contract stipulated in May 2017 on "Term Loan A".

Net financial debt amounted to Euro 497,326 thousand, related primarily to the bank loan renegotiated in 2015 as a result of the debt restructuring agreement reached with the banks. For more details, please refer to the explanatory notes.

Research and Development Activities

The Company did not carry out research and development in 2017 nor are there, as at December 31, 2017, deferred costs related to this type of activity.

Own shares and shares of the parent

At the date of the financial statements, the Company does not own treasury shares or shares of parent companies, either direct or indirect.

Relationships with subsidiaries, affiliates, parent companies and companies controlled by the latter

No significant transactions were carried out in 2017 with related parties. For more details, please refer to the notes to the financial statements.

Financial Risks, Market Risks and Other Risks

Please refer to the notes to the financial statements.

Business outlook

After a 2017 characterized by an increase of approximately 1.5% in Italian GDP, in its last monthly bulletin, the Bank of Italy predicted GDP growth of around 1.4% also in the current year, and 1.2% in both 2019 and 2020.

According to the early provisional data prepared by Terna, total electricity requested in Italy amounted to 320.4 billion kWh in 2017 (an increase of 2% compared to 2016 - 2.3% based on the same calendar), which represents the highest value since 2013. At regional level, the trend-based variation in December 2017 was positive everywhere, and essentially in line with the national average in all areas of the country: +1.7% in the North, +1.5% in the Centre and +1.8% in the South. In economic terms, the seasonally adjusted value of electricity demand in December 2017 registered a slightly positive variation compared to the previous month (+0.5%). The profile of the trend remained stationary.

Nonetheless, in a market context increasingly characterized by a high level of competition, management's activities are targeted at protecting profitability through a continued focus on seizing all the opportunities on the electricity market, the maintenance of an adequate level of operational efficiency of the plants and meticulous reduction and related monitoring of business costs. The above activities form part of ongoing actions to optimize the Company's cash flow.

The economic results in the first two months of 2018 are better than the Company's forecasts.

Significant events after the close of the period

On January 31, 2018, the Board of Directors approved and signed an “Amendment Agreement”, negotiated with the financial institutions, partially modifying the contracts known as the “Guarantee Facility Agreement” and “Restated Facility Agreement”, both signed on December 16, 2015.

As at February 1, 2018, all the conditions precedent were satisfied and, therefore, the Amendment Agreement became effective.

In short, the Amendment Agreement confirms the existing guarantees for supporting the company's operations up until December 2022 and the issuing of additional guarantees by the financial institutions in order to operate, at the time of its entry into force, in the Capacity Market. As a result of the agreement, the company arranged for the early repayment of Tranche A, in application of the so-called Cash Sweep mechanism of the cash and cash equivalents exceeding Euro 50,000 thousand as at December 31, 2017, amounting to Euro 11,650 thousand, together with the payment of an extraordinary cash sweep, equal to Euro 18,212 thousand, comprised of the amount of ETS credits transferred as guarantee in due course to the banks and which were, in the meantime, collected by Banca Intesa as assignor of the credits.

It should be noted that, in this regard, based on the agreement, the remaining amount of ETS credits, transferred in due course and still not collected, amounting to Euro 10,211 thousand, was retroceded by the company by means of a notarial deed.

The agreement modifies the default and conversion covenants, making provision for their suspension in 2018 and 2019, and their modification following the suspension with an increase of 5% in the conversion ratios and 10% on the default ratios in the 2020-2022 period, and conversion and default ratios maintained flat at 3.00 and 3.33 respectively from 2022 to 2024.

In addition, the parties agreed a reduction of Euro 20 million in the amount of Tranche B (mandatory convertible bond) to meet the capital requirements for access to the Capacity Market (from Euro 250 million to Euro 230 million, excluding interest), if said requirement should be confirmed in the final regulation of Terna.

PROPOSALS OF THE BOARD OF DIRECTORS

Dear Shareholders,

We invite you to approve the financial statements at December 31, 2017, both as a whole and the individual items.

As illustrated, the financial statements of Tirreno Power S.p.A. reported a net loss of Euro 13,463,142.
In relation to the provisions of the Company's Articles of Association, and taking into account the available reserves present under shareholders' equity items, it is proposed that the net loss be covered in full by using the available reserve for the coverage of losses.

Rome, March 13, 2018

For the Board of Directors

(Chairman)

Naples Power Plant

Financial Statements Schedules

Balance Sheet

(Euro)	Note	Dec-31-17	Dec-31-16
Assets			
Property, plant and equipment	1	726,576,723	746,879,007
Intangible assets	2	20,070,395	8,591,174
Non-current financial assets	3	25,142,789	17,586,093
Deferred tax assets	4	589,833	1,068,676
Other non-current assets	5	10,210,882	40,982,329
Derivative financial instruments	6	1,234,889	-
Total non-current assets		**783,825,511**	**815,107,280**
Inventories		14,501,991	21,292,759
Trade receivables		91,956,711	164,743,553
Other current assets		40,153,221	38,463,708
Other current financial assets		1,287,832	2,562,044
Cash and cash equivalents		11,675,541	53,017,128
Total current assets	**7**	**159,575,295**	**280,079,192**
Total assets		**943,400,806**	**1,095,186,472**
Liabilities			
Share capital		60,516,142	60,516,142
Other reserves		138,530,009	183,702,563
Accrued gains (losses)		-	13,195,857
Profit (losses) for the period		(13,463,142)	(58,689,739)
Shareholders' equity	**8**	**185,583,009**	**198,724,823**
Payables for loans	9	470,519,874	559,337,123
Provisions for risks and charges	10	68,793,380	74,124,221
Post-employment benefits and other employee benefits	11	14,284,952	17,136,349
Deferred tax liabilities	12	36,386,724	37,389,448
Other non-current liabilities	13	2,384,797	3,116,516
Total non-current liabilities		**592,369,727**	**691,103,658**
Payables for loans	9	38,481,732	8,083,316
Provisions for risks and charges	10	14,473,841	27,673,327
Trade payables		88,026,342	154,363,851
Other current liabilities		24,466,155	15,214,344
Other short-term financial liabilities		-	23,154
Total current liabilities	**14**	**165,448,070**	**205,357,991**
Total shareholders' equity and liabilities		**943,400,806**	**1,095,186,472**

Income Statement

(Euro)	Note	Dec-31-17	Dec-31-16
Revenues	15	1,000,623,626	738,479,690
Other revenues	16	4,358,038	10,261,641
Total revenues		**1,004,981,663**	**748,741,331**
Own work capitalised	17	1,021,551	286,282
Consumption of raw materials	18	(864,001,876)	(627,580,581)
Personnel costs	19	(20,113,720)	(23,750,309)
Service costs	20	(24,358,344)	(23,156,521)
Other operating costs	21	(34,279,795)	(52,742,711)
Amortisation, depreciation and write-downs	22	(55,984,631)	(59,976,249)
EBIT		**7,264,849**	**(38,178,758)**
Financial expenses	23	(21,735,372)	(20,937,621)
Financial income	24	382,027	426,641
Pre-tax profit		**(14,088,496)**	**(58,689,739)**
Taxes	25	625,354	-
Net income		**(13,463,142)**	**(58,689,739)**
Earnings per share - basic and diluted	**26**	**-0.22**	**-0.97**

Statement of Comprehensive Income / (loss)

(Euro)	Note	2017	2016
Net income for the period		**(13,463,142)**	**(58,689,739)**
Other components of comprehensive income:			
Change in fair value IAS 19 - Post-employment and other benefits	*8*	624	(474,285)
Change in fair value of Interest Rate Cap	*8*	320,704	0
Total other components of comprehensive income		**321,328**	**(474,285)**
Total comprehensive income		**(13,141,814)**	**(59,164,024)**

Statement of cash flows

(Euro)	Note Ref.	Note	Dec-31-17	Dec-31-16
OPERATING ACTIVITIES				
Net income for the period			(13,463,142)	(58,689,739)
Amortisation, depreciation and write-downs		21	55,984,631	59,976,249
Net provisions for deferred taxes and other provisions			(22,384,448)	28,371,847
(Purchase) repayment of GC and CO2 quotas			(11,618,354)	2,128,764
Increase (decrease) in CF hedge reserve and IAS 19			624	(474,285)
Other non-monetary changes			(3,333,602)	(260,865)
Change in other non-current assets and liabilities			21,726,987	12,492,859
Change in other current assets and liabilities			22,076,612	47,964,291
Cash flow from operating activities			**48,989,308**	**91,509,120**
of which:				
- Interest income collected			-	-
- Interest expenses paid			*(828,662)*	*(905,036)*
- Income taxes paid			-	-
INVESTMENT ACTIVITIES				
Investments in tangible assets			(31,493,526)	(40,551,645)
Investments in intangible assets			(395,381)	(281,783)
Cash flow from investment activities			**(31,888,907)**	**(40,833,428)**
FINANCING ACTIVITIES				
Increase in share capital			-	-
Increase (decrease) in payables for non-current loans			(88,817,249)	14,760,000
Increase (decrease) in payables for current loans			30,398,416	(50,000,000)
Equity instruments			-	
Changes in other short-term financial liabilities			(23,154)	(31,056,744)
Cash flow from financing activities			**(58,441,987)**	**(66,296,744)**
Increase (decrease)			**(41,341,587)**	**(15,621,051)**
Opening cash and cash equivalents			**53,017,128**	**68,638,179**
Closing cash and cash equivalents			**11,675,541**	**53,017,128**

Statement of changes in Shareholders' Equity

(Euro)	Note	Share capital (a)	Other reserves (b)	Accumulated gains (losses) (c)	Profit (loss) for the period (d)	Total (a+b+c+d)=e
Balance at January 1, 2016		**60,516,142**	**183,482,329**		**13,890,376**	**257,888,847**
Allocation of profit for 2015			694,519	13,195,857	(13,890,376)	-
Comprehensive profit/loss December 2016			(474,285)		(58,689,739)	(59,164,024)
of which:						
Income/losses booked directly to shareholders' equity	*8*		*(474,285)*			(474,285)
Profit/losses December 2016					*(58,689,739)*	*(58,689,739)*
Balance at January 1, 2017		**60,516,142**	**183,702,563**	**13,195,857**	**(58,689,739)**	**198,724,823**
Allocation of profit for 2016			(45,493,882)	(13,195,857)	58,689,739	-
Comprehensive profit/loss December 2017			321,328		(13,463,142)	(13,141,814)
of which:						
Income/losses booked directly to shareholders' equity	*8*		*321,328*			321,328
Profit/losses December 2017					*(13,463,142)*	*(13,463,142)*
As at December 31, 2017		**60,516,142**	**138,530,009**		**(13,463,142)**	**185,583,009**

Explanatory Notes

Declaration of conformity

This Report is prepared in accordance with IFRS international accounting standards and provides complete information on the basis of IAS 1.

IFRS means all the "International Financial Reporting Standards", all International Accounting Standards ("IAS"), all of the interpretations of the International Financial Reporting Standards Committee ("IFRIC"), all the interpretations of the Standing Interpretations Committee ("SIC"), adopted today by the European Union and contained in the EU Regulations published on G.U.C.E. up to today's date, in which the Board of Directors of Tirreno Power S.p.A. authorized the publication of these financial statements. Lastly, still on the subject of interpretation, account was also taken of the documents on IAS / IFRS in Italy prepared by the Italian Accounting Board (OIC).

Structure and content of financial statements

These financial statements consist of the Balance Sheet, Income Statement, Statement of comprehensive income/loss, Statement of Cash Flows, Statement of changes in shareholders' equity, as well as the explanatory notes.

As for the financial statements that the Company has chosen to adopt it should be noted:

- In the "Balance Sheet" assets and liabilities are sorted by due date, separating current and non-current items by expiry, respectively, within or after 12 months;
- The "Income Statement" is presented in a scalar form by nature;
- The "Statement of Cash Flows" is prepared using the indirect method, as allowed by IAS 7;
- The "Statement of comprehensive income/loss" is prepared separately in accordance with IAS 1 Revised.
- The "Statement of changes in shareholders' equity" is prepared in accordance with IAS 1 Revised.

The functional currency used for the presentation of financial statements is the euro and all amounts are expressed in thousands of Euros unless indicated otherwise. For disclosure purposes, the values are reported without decimals.

This document is subject to auditing by the auditing firm EY S.p.A., a company which was also entrusted with the legal auditing of accounts.

Evolution of the Restructuring Agreement, of the Business Plan and going concern assumption

As is well-known, the critical financial and equity situation of the Company, as highlighted in the previous financial statements, had implied the need for the Company to reach a Restructuring Agreement in 2015 with the main creditors (the Lenders) for payables pursuant to art. 182-bis of the Bankruptcy Law, aimed at structurally resolving the existing financial and equity imbalances. In this regard, note that the Debt Restructuring Agreement and the financial measure agreed with the lenders were negotiated on the basis of a Business and Financial Plan (hereinafter the "Plan") definitively approved by the Board of Directors on July 8, 2015. In addition, on the same date, Mr. Enrico Laghi, as an independent expert, had issued the certification on the accuracy of company data and the viability of the Business and Financial Plan and the Restructuring Agreement, with particular reference to its suitability to ensuring full payment of the foreign creditors in accordance with the terms of art. 182-bis, first paragraph of the Bankruptcy Law. This plan assumes from 2015 and in the following three years (2016-18) modest profitability, because the electricity market will be characterized by overcapacity on the production side, by weak demand and a growing supply of energy from renewable sources, likely to increasingly reduce both achievable volumes on the market and the difference between Peak and Off-Peak prices. The plan also made provision for the introduction of the Capacity Market from 2018 and the recovery of electricity demand which will enable a gradual return to higher profit margins.

On March 13, 2018, the Board of Directors approved an update to said Business Plan based on the economic, equity and financial results achieved in the 2015-2017 three-year period, which incorporates all the introductions, adjustments and updates, in regulatory and industrial terms, verified in the three-year period that will have repercussions in future years. The subsequent approval by the European Commission of the Capacity Market mechanism in Italy (discussed later in the section "Significant events after the close of the period"), gives concrete shape to the assumption, set out in the Business Plan, of this important and expected regulatory development which, together with a recovery in the electricity demand, will allow a gradual return to higher and consolidated profit margins.

At the end of all actions contained in the ADR (restructuring agreement), the shareholders' equity of the Company - which at 31 December 2014 was negative for Euro 60,864 thousand - amounts, at the date of these financial statements, to a positive Euro 185,583 thousand, deemed suitable by the Directors to ensure adequate capitalization of the Company with respect to the objectives set out in the Plan, a result that benefits from the conversion of the debt of Euro 280 million to equity instruments, which took place in December 2015, together with the losses, albeit less than expected in the original plan, registered in the 2015-2017 three-year period.

As regards the result for the year, Tirreno Power recorded significantly improved economic results as at December 31, 2017, when compared to the previous year. In fact, despite still registering a net loss of Euro 13,463 thousand, the Gross operating profit came to a positive Euro 71,943 thousand, compared to Euro 54,702 thousand realized in 2016. In addition, at operating level, the result achieved, which in 2016 was a negative Euro 38,178 thousand, also recorded a significant improvement, amounting to a positive Euro 7,265 thousand.

These results highlight a better operating performance, also in 2017, than the expectations included in the Business and Financial Plan definitively approved by the Board of Directors on July 8, 2015, forming the basis of the Restructuring Agreement, and are attributable to the considerably higher than expected values of production (+53% compared to the Plan forecasts) and the excellent results achieved on the Dispatching Services Market, as a result of the favorable pricing opportunities seized in certain months of the year.

It should also be noted that, in 2017, the payable due to lenders was reduced significantly thanks to the cash generated by the company, which allowed the early repayment of Tranche A with respect to the maturities established beforehand in the Restated Facility Agreement. In fact, said agreement made provision for the first repayment of Tranche A of Euro 5 million in December 2017, while during said year, the company repaid an amount of Euro 72,236 thousand and, in the first few months of 2018, a further Euro 29,862 thousand, which resulted in the reduction by 1/3 of the principal of Tranche A to be repaid to the lenders. The net financial position as at December 31, 2017 amounted to Euro 497 million, an improvement, also thanks to the results obtained and careful financial management, with respect to the result forecast on the date of the original business plan of Euro 601 million.

It is also worth underlining that, after the close of the year 2017, an additional agreement was reached with the lenders, through which the company requested and obtained an extension of the necessary guarantees for company operations on the Electricity Market, therefore stabilizing and securing participation on both the Daily Market and the Capacity Market.

On the whole, the company's position has been characterized, over the last few years, by events and circumstances that have raised significant doubts, however:

- the economic results achieved in 2017, which confirmed the better performances than those forecast in the Business and Financial Plan;
- the realization, up until the present day, of the actions set out in the aforementioned Plan in terms of increasing the efficiency of resources, which led to a reduction in structure costs;
- the verification of the capacity to generate cash, which allowed a faster repayment of the loan than envisaged originally;

confirmed the reasonableness of the assumptions used by the directors to draft the Plan and its updating, installing confidence in them regarding the company's ability to be able to reach the results expected in the Plan also in future years, despite being fully aware that the results envisaged in the aforementioned Plan may only materialize if the assumptions contained therein are satisfied. These assumptions are primarily related to the market trends and regulatory developments which are subject, owing to their nature, to uncertainties in terms of the methods and timing of their realization.

Based on these assumptions, the directors reasonably expect to be able to overcome the significant doubts over the company's ability to continue to operate in the foreseeable future as an operating entity, therefore, drafting these financial statements on the basis of the going concern assumption.

Accounting policies and valuation criteria

The accounting policies and valuation criteria adopted are summarized below. The accounting policies are adopted on a going concern basis as described above and with the principles of competence, relevance and materiality of accounting information and the prevalence of substance over form.

The general principle used in preparing these financial statements is the cost method with the exception of any derivatives for which IAS 39 requires the fair value measurement.

Use of estimates

The preparation of financial statements and related notes requires the application of accounting principles and methods that sometimes are based on complex judgments and estimates, linked to historical experience, and assumptions that are from time to time considered reasonable and realistic based on the associated circumstances. The application of these estimates and assumptions affects the information provided and the amounts reported in the balance sheet, income statement and statement of cash flows, and consequently in the statement of changes in equity, due to the uncertainty that characterizes the assumptions and conditions on which the estimates are based.

A change in the assumptions underlying conditions used could have a potentially significant impact on the financial statements, on recoverability and on depreciation and amortization of non-current assets, risk provisions, some regulatory credits, the fair value of financial instruments; particularly the recoverability assessments of major asset items, such as tangible and intangible assets and deferred tax assets, are based on significant estimates related to the determination of future cash flows and taxable income. Estimates and assumptions are reviewed periodically and the effects of each change are simultaneously recognized in the income statement. In connection with the use of estimates, please refer to the paragraph “Evolution of the Restructuring Agreement, of the Business Plan and business continuity” and note no. 1.

Translation of foreign currency items

The functional and presentation currency is the euro.

Foreign currency transactions are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at the balance sheet date. Exchange differences arising from the conversion operations are reflected in the income statement and recorded under financial income and expenses. Non-monetary assets and liabilities denominated in foreign currencies and valued at cost are translated at the exchange rate prevailing at the date of initial transaction.

Tangible assets

Property, plant and equipment are stated at acquisition or production cost, less accumulated depreciation and any impairment losses. The cost includes expenditure directly incurred to prepare the assets for use, as well as any charges for dismantlement and removal (as provided by IAS 37), recorded at the present value of the future is estimated to support. The cost also includes any interest paid on the purchase or construction of property, plant and equipment incurred to bring exercise thereof.

Also included are the costs for the strategic spare parts of the plants.

Depreciation commences when the asset is available for use and is recognized systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.

The useful life of property, plant and equipment and their residual value are reviewed and adjusted if appropriate, at least at the end of each year. The presumed realizable value which is deemed recoverable at the end of its useful life, if determined, is not amortized.

Where the asset subject to depreciation is composed of separately identifiable elements whose useful life differs significantly from that of the other parts that make up the asset, depreciation is calculated separately for each of these parts, in application of the component approach.

Ordinary maintenance costs are fully expensed in the year they are incurred.

The costs incurred for the maintenance performed at regular intervals (so-called Major Inspection) are recorded as assets in the balance sheet and are amortized on the basis of the intervention cycle, as planned by management.

The depreciation of freely transferable assets outside the scope of IFRIC 12 is calculated on a straight-line basis over the shorter of the remaining life of the concession and the estimated useful life of the same.

Land, whether free of constructions or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.

The estimated useful lives of property, plant and equipment is as follows:

Buildings	25/40 years
Equipment; steam generator; mech. mach.; hydraulic works	20 years
Combined cycle plants	30 years
Maintenance	from 2 to 8 years
Electronic calculators; office machines; IT equipment	5 years
Transport lines	35 years
Long distance transmission systems and industrial equipment	10 years

If there are signs of deterioration, tangible assets are subject to a recoverability test (so-called “impairment test”) which is illustrated in the following paragraph “Impairment of Assets”.

Intangible assets

Intangible assets consist of identifiable non-monetary assets, without physical substance, controllable and capable of generating future economic benefits. They are carried at cost of purchase and / or production cost, including directly attributable costs of preparing the asset for use, net of accumulated amortization, in cases where there is an amortization process, and any impairment. Amortization commences when the asset is available for use and is recognized systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.

Research costs are expensed in the year they accrue. Development costs are capitalized if the cost can be measured reliably and it is shown that the asset is able to generate future economic benefits.

With regard to so-called emission rights as well as economic situations similar to them, following the IASB's non-approval of IFRIC 3 (Emission Rights) and then its subsequent withdrawal, there is currently no specific international accounting standard on the issue. Pending a new principle, Tirreno Power, given that it procures the above environmental bonds to meet its own requirements in the performance of its industrial activities (so-called own use), has decided to adopt, on the basis of market benchmarks, the gross method, which involves booking the emission rights as intangible assets at their fair value, which is equal to the historical cost, and registration of emission rights to be delivered as a liability. Quotas allocated freely shall be entered at a zero value. This item is not amortized, but tested for impairment. Costs incurred for purchase on the market (or, nonetheless, with consideration) of the green certificates and missing CO2 quotas to fulfill the obligation of the reporting period are recognized in the income statement on an accrual basis, under other operating expenses, given that expenses represent the fulfillment of a legal obligation.

Impairment of Assets

At each balance sheet date, property, plant and equipment and intangible assets with indefinite lives are tested in order to establish whether there are indicators of impairment. When the presence of these indicators is identified, the recoverable amount of the assets is estimated and any impairment loss recognized in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the latter is the present value of estimated future cash flows of the asset. In determining the value in use, future cash flows are discounted with a discount rate before tax that reflects the assessment of the cost of money for the company, the time value and the specific risks. An impairment loss is recognized in the income statement when the asset's carrying amount exceeds its recoverable amount.

In the case of goodwill and other intangible assets with indefinite useful life or assets not available for use, this test is performed at least annually.

For tangible and intangible assets (but not for goodwill), should the reasons for a write-down effected previously no longer exist, the carrying value is reinstated by an entry in the income statement, in accordance with the limits of the net book value that the asset would have had if it had not been written down and depreciation had been charged.

Inventories

Raw materials, consumables and supplies are valued at the lower of cost determined using the weighted average method, and net realizable value based on market trends.

The purchase cost is determined for the reference period, in respect of each inventory item. The weighted average cost includes the relevant accessory charges relating to purchases in the period.

The value of obsolete and slow-moving inventory is written down in relation to the risk of use or sale, through the allocation of risk in a specific provision for the write-down of inventories.

Financial instruments

Financial instruments include financial assets and liabilities whose classification is determined at the time of their initial recognition, depending on the purpose for which they were purchased. Purchases and sales of financial instruments are recognized on the trade date.

The financial instruments include not only investments available for sale, but other non-current financial assets, receivables and non-current loans, trade receivables, other receivables originated by the enterprise as well as other current financial assets such as cash and equivalents or bank deposits and financial receivables due within three months. Fall also under financial instruments, financial liabilities, trade payables, other payables and other financial liabilities and derivative instruments.

Their initial assessment takes into account the transaction costs directly attributable to the acquisition or the issuance costs that are included in the initial measurement of financial instruments. The fair value of instruments quoted on public markets is determined with reference to quoted prices (bid price) at the balance sheet date. The fair value of unquoted instruments, including those related to electricity, is instead measured with reference to the financial valuation techniques or using major financial counterparties. In particular, the fair value of interest rate swaps is measured by discounting the expected cash flows, the fair value of foreign exchange forwards is determined on the basis of market exchange rates at the balance sheet date and the rate differentials between the relevant currencies, while the fair values of derivatives related to commodities are calculated using models based on industry best practices.

In general, in applying those models, market data are used rather than internal company data.

Trade receivables

Trade receivables which accrue within the normal commercial terms are not discounted and are recognized at cost (identified by their nominal value) net of related impairment losses.

Whenever there is objective evidence of impairment, the asset's value is reduced to such an extent as to be equal to the discounted value of future cash flows: impairment determined on the basis of impairment tests is booked to the income statement. Significant financial difficulties of the debtor, probability that the debtor is subject to insolvency proceedings, or the natural delay in meeting payments (amounting to at least 30 days) are indicators of impairment.

If, in subsequent periods, the reasons for the write-down no longer apply, the value of the assets is restored up to the value that would have resulted from the amortized cost if the impairment had not been effected. As for trade receivables and, in general, the assets and liabilities with a residual term not exceeding 12 months, the fair value is reasonably assumed to approximate their book value.

Cash and cash equivalents

Cash and cash equivalents include cash, i.e. assets that meet the requirements of availability on demand or at short notice, successful outcome and absence of collection expenses and are measured at fair value.

Cancellation (derecognition) of financial assets

Financial assets are derecognized when the rights to receive cash flows from the instrument expires and the entity has transferred substantially all the risks and rewards relating to the instrument and the relative control.

Trade payables

The trade payables which accrue within the normal commercial terms are not discounted and are recognized at cost (identified by their nominal value).

Financial liabilities

Financial liabilities, including borrowings, trade payables and other payment obligations, are initially recognized at cost corresponding to the fair value of the liability net of costs incurred to secure loans (transaction costs). Following initial recognition, financial liabilities are measured at amortized cost using the effective interest rate. They are consequently restated net financial charges on the basis of the effective interest rate method.

If there is a change in expected cash flows and the possibility exists to reliably estimate the value of the loans is recalculated to reflect this change on the basis of the present value of expected future cash flows and the internal rate of return originally determined. Financial liabilities are classified as current liabilities unless the entity has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Financial liabilities are removed from the balance sheet when the specific contractual obligation is extinguished.

Derivative financial instruments

Derivatives are recognized on the trade date at fair value and accounted for as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the hedge effectiveness, verified periodically, is high.

When derivative financial instruments, accounted for as hedges, hedge the risk of changes in the cash flows of the hedged item (cash flow hedge), the changes in fair value are recognized in equity under reserves while the ineffective portion is recognized in the income statement. The items whose cash flows are subject to a cash flow hedge are measured at amortized cost. The company will prospectively suspend accounting using the cash flow hedge method from the moment the requirements are no longer met. Subsequent changes in fair value in this case are charged to the income statement. The residual cash flow hedge reserve recognized directly in equity until the hedge is no longer considered effective must be recorded in the income statement when the transaction or transactions take place, to which it/they refer(s).

If derivatives are defined in accordance with IAS 39 as the price risk hedges (fair value hedges), they are recorded in the balance sheet and are measured at fair value and the gains or losses determined are recognized in the income statement; the corresponding items hedged with derivatives are measured at fair value.

Changes in the fair value of derivative financial instruments put in place by each company that does not meet the requirements for recognition as hedging instruments (hedge accounting), measured subsequent to initial recognition, are treated as positive or negative components of the economic result for the year.

To ensure the correct recognition, classification, representation in the financial statements and subsequent measurement, the derivative finance transactions in place can be divided as follows:

- Transactions considered hedges under IAS 39: these are transactions to hedge cash flows (cash flow hedge). In the case of cash flow hedges, the accrued result is included in profit or loss when realized, whereas the prospective value is recognized in equity.
- Transactions not considered accounting hedges pursuant to IAS 39, albeit for hedging purposes: the Company may hold derivative instruments to hedge its exposure against fluctuations in the selling prices of electricity and the purchase of fuels. In line with the chosen strategy, Tirreno Power does not enter into derivative transactions for speculative purposes. When such operations are not classified as hedges pursuant to IAS 39, the accrued result and prospective value are included in the operating result.

As regards the new standard IFRS 9 - Financial Instruments which replaces IAS 39, please refer to the paragraph “Changes in International Accounting Standards”.

Embedded derivatives

Embedded derivatives included in other financial instruments or in other contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the latter are not stated at fair value with recognition of gains and losses in the income statement. The Company verifies the existence of any embedded derivatives, analyzing the facts and circumstances which could have originated them, including, for example, any contracts regarding the receipt or sale of "non-monetary" assets according to specific company purchase, use or sale requirements.

Employee Benefits

The short-term benefits are recognized in the income statement in the period in which the working activity is performed.

It is noted that, in connection with the pension reform of 2007, the provision for Post-employment benefits was restated, by adopting the new methodological approach, or considering that the amounts accrued as of January 1, 2007 are a defined contribution benefit and, therefore, not included in the calculation of liabilities. Where the provision accrued at December 31, 2006 is treated as a defined benefit plan, the benefits granted to employees are recognized over the vesting period, as well as other long-term benefits (Additional months' salaries, Tariff Incentives and Loyalty Bonuses).

The cost of providing benefits under the various plans is determined separately for each plan, using actuarial assumptions to estimate the amount of future benefits that employees have accrued at the reporting date.

The obligation in question is determined on the basis of independent actuarial assumptions. Gains and losses resulting from actuarial calculations are recognized in the income statement.

For defined contribution plans, contributions are only recorded when the employees have provided their activities and then those contributions are accrued. In the latter case Tirreno Power pays fixed contributions into a separate entity (e.g. a Fund) and will have no legal or constructive obligation to pay further contributions if the fund is not solvent.

Provisions for risks and charges

Provisions are recorded to cover losses and charges of a specific nature, certain or probable, in respect of which, however, the amount and/or date of occurrence cannot be determined.

Provisions for risks and charges are recognized when, at the reporting date, in the presence of a present obligation (legal or constructive) to third parties arising from a past event, it is likely that, to fulfill the obligation, an outflow of resources whose amount can be estimated reliably will be required.

When the financial effect of time is significant, the provision is discounted using a yield curve that reflects the time value of money expressed by the market and the risks associated with the liability.

If the provision is estimated taking into account the discounting process, the increase in provisions, due to the passage of time, is recognized in the income statement as a financial charge. If the liability relates to tangible assets (e.g. dismantling and restoration of sites), the provision is recorded against the asset to which it relates; the expense is recognized in the income statement through the depreciation of the tangible asset to which the expense relates, as well as through the measurement of the financial expenses of the revaluation of the liability.

The allocation of restructuring expenses takes place when the general criteria for allocation of a provision are respected. The Company has an implicit obligation when a detailed and formalized plan identifies the business unit concerned, the location and number of employees forming the object of the restructuring, the detailed estimate of costs and the implementation timescales. In addition, the personnel concerned must be informed of the main characteristics of the restructuring plan.

Revenue recognition

Revenues are recognized to the extent that it is possible to reliably determine its value (fair value) and it is probable that the associated economic benefits will be enjoyed by taking into account any discounts and reductions linked to quantities.

Revenues related to the sale of electricity are recognized at the time of delivery of supply, even if not invoiced, based on the actual sales prices on the Power Exchange or the conditions set forth contractually, taking into account the existing legislation.

Revenues from services are recognized when they can be reliably estimated, on the basis of the percentage of completion method.

Other revenues are determined according to the terms and conditions which take account of the risks and benefits transferred.

Recognition of costs

Costs are recognized in the periods in which the related revenues are recorded and, in general, in accordance with the accrual principle. Costs that cannot be associated with revenues are immediately recognized in the income statement. For the criteria for recognition and measurement of specific costs, the Company considers their nature and the reference accounting legislation.

Financial income and expenses

The financial income and expenses are recognized according to the accrual method, based on the interest accrued on the amount of the related financial assets and liabilities using the effective interest rate.

Dividends

Dividends distributed to shareholders are reported as changes in shareholders' equity on the date on which they are approved by the shareholders’ meeting.

Government grants

Government grants, in the presence of a formal resolution by the disbursing entity, are recognized on an accruals basis in direct correlation with the costs incurred. In particular, the operating grants are credited to the income statement under “Other income”, while public capital grants that relate to property, plant and equipment are recorded as deferred revenue in balance sheet liabilities. The deferred income is recognized in the income statement as income on a straight-line basis over the useful life of the asset to which it directly relates.

Income tax

Current income taxes are recognized as tax payables and calculated based on the estimated taxable income determined in accordance with the provisions in force at the reporting date.

Deferred taxes are calculated on temporary differences between the carrying amounts and the corresponding amounts recognized for tax purposes applying tax rates that are expected to apply in the period when the asset is realized or the liability settled.

Deferred tax liabilities are recognized without exception for all taxable temporary differences. Deferred tax assets are only recognized if it is likely that, within a reasonable timeframe, taxable income emerges of a sufficient amount to absorb the deductible temporary differences and the underlying IRES losses to such deferred taxes.

Current and deferred taxes are recognized in the income statement, except those relating to items charged or credited directly to equity; in which case, the tax effect is recognized as a separate item in equity.

Income taxes include the effects, better described in the explanatory notes on deferred tax assets and liabilities, of Law no. 208 of December 28, 2015, (2016 Stability Law) regarding the reduction in the IRES rate from 27.50% to 24% from tax year 2017.

Changes in International Accounting Standards

With reference to the description of recently issued accounting standards, the international accounting standards that became applicable from January 1, 2018, given adopted by the EU, are reported below:

IFRS 15 - Revenues from contracts with customers

Regulation EU no. 2016/1905 was issued on September 22, 2016, which acknowledged IFRS 15 at EU level (Revenues from contracts with customers) and the associated amendments.

IFRS 15 will replace the standards that, as of today, govern the recognition of revenues, i.e. IAS 18 (Revenues), IAS 11 (Construction contracts) and the associated interpretations of the recognition of revenues (IFRIC 13 Customer loyalty programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Barter transactions involving advertising services).

The new standard will apply to all contracts with customers with some exclusions, such as leases and insurance contracts and those regarding financial instruments.

The key principle of IFRS 15 requires an entity to recognize revenues for an amount equal to the consideration it expects to be entitled in exchange for goods or services.

Revenues must be recognized when (or as and when) the seller fulfils the contractual obligation, transferring the good or service to the customer. The transfer takes place when (or as and when) the customer acquires control of it.

IFRS 15 will be applied according to a model composed of five fundamental steps:

1. Identification of contracts with customers;
2. Identification of the performance obligations, recognizing the distinct goods or services as separate performance obligations;
3. Determining the transaction price, i.e. the expected consideration;
4. Allocation of the transaction price to each performance obligation identified in the contract based on the independent sale price of each distinct good or service;
5. Recognition of the revenue on satisfaction of the performance obligations through the transfer of the good or service to the customer, or when the customer obtains control of the good or service.

Lastly, IFRS 15 imposes significantly more extensive disclosure obligations regarding the nature, amount, timing and uncertainty of revenues and cash flows deriving from contracts with customers.

IFRS 15 will be applied retrospectively from January 1, 2018 by adopting, alternatively, one of the following methods:

- the “complete retrospective method” which involves the recalculation of all the comparative periods presented in the financial statements;
- the “simplified” method involves the recognition of the cumulative effect of the first application of the standard to shareholders’ equity, as adjustment of the opening balance of retained earnings at the start of 2018. This treatment only applies to contracts that have not been completed as at 1 January 2018.

In the latter case, the entity must nevertheless provide:

i) the changes resulting on the individual items of the 2018 financial statements; and

ii) the reasons for these variations.

By contrast, it is not necessary to present the re-statement of the years presented in the comparative disclosure.

In this regard, Tirreno Power, at present, no longer deems it appropriate to apply the “simplified” model.

An analysis is currently underway on the quantitative impacts that the new IFRS 15 may have on Tirreno Power’s accounts from January 1, 2018 and, therefore, on the interim financial statements as at June 30, 2018 and annual financial statements for the year ended as at December 31, 2018.

The qualitative analysis conducted shows that the new standard should not, however, have significant impacts on shareholders’ equity for the “core” sales of the company, given that these are characterized by sales of packages (energy/goods/services) or characterized by conditions of variability in prices in relation to the trend in volumes sold, which may involve a different time allocation of revenues.

The new revenue recognition model envisaged in IFRS 15 actually may produce effects, especially in the case of “bundle” offers, making provision for the allocation of the Transaction Price (the total expected consideration) to each Performance Obligation (or each separate good or service that the entity has promised to transfer to the customer) based on the relative stand alone selling price.

Tirreno Power’s sales revenues, by contrast, are essentially attributable to electricity sold as wholesaler:

- on the Power Exchange, through transactions concluded on the Day-Ahead Market, the “Intra-Day Market” and, lastly, on the Dispatching Services Market;
- outside the Power Exchange, i.e. on an “Over The Counter” (OTC) platform through a bilateral contract with an electricity trader/wholesaler, at a sale price negotiated directly with said counterparty.

From the second half of 2018, provision was also made for a new mechanism for the remuneration of the electricity production capacity (so-called Capacity Market). Therefore, when the regulatory framework for said mechanism is defined, it will be possible, as well as necessary, to perform an evaluation of the impacts of the new IFRS 15 on the recognition of revenues recorded on the Capacity Market.

Lastly, the new standard may have effects on non-core sales revenues, nonetheless also insignificant in relation to the amounts of said revenues regarding altogether negligible cases and amounts.

IFRS 9 - Financial Instruments

The standard was developed by the International Accounting Standard Board (IASB) to replace IAS 39 - Financial Instruments, providing its response to the financial crisis. The IASB completed IFRS 9 in July 2014, by publishing a standard whose final version incorporates the requirements of all three phases of the financial instruments project, i.e.:

- classification and measurement;
- adoption of a new method for the evaluation of expected losses (impairment);
- recognition of hedging instruments (hedge accounting).

The new rules will be applied from January 1, 2018; early adoption is permitted.

As regards the effects for the company at the start of 2018, it should be noted that, as at December 31, 2017, an amount of Euro 1,235 was booked to the item “Derivative financial instruments”, which includes the mark-to-market value of the interest rate hedge stipulated in May 2017, as better described in note no. 6.

At the opening of 2018, the company will need to carry out a shareholders’ equity reclassification of Euro 831 thousand from retaining earnings (positive), to a new reserve for time value changes (negative), gross of the associated tax effect, to take account of the value that would have been recorded in the income statement in 2017 by applying the new rules of IFRS 9 retroactively.

This reclassification is actually equal to the difference between the time value change of the option booked to the Income Statement in 2017 pursuant to IAS 39 (negative Euro 1,213 thousand) and the value that, by contrast, would have been recorded in the income statement in 2017 by retroactively applying the new rules of IFRS 9 for the accounting of option premiums (negative Euro 382 thousand and equal to the financial amortization of the value of the initial premium pertaining to 2017).

Type of risks and management of hedging activities

Risk management is an integral and fundamental part of the strategies of every organization and the process through which companies tackle the risks connected with their activities, with the objective of obtaining long-lasting benefits.

The basis of good risk management consists of identifying and dealing with risks in order to allow an understanding of the potential positive and negative aspects of all factors that can influence the organization. Risk management, a continuous and gradual process that involves the entire organization strategy and its implementation, must be engrained in the company culture through an effective policy and a project managed by the company's top management, in order to turn the strategy into objectives and assign responsibilities at all levels of the organization, making every person responsible for risk management.

For Tirreno Power S.p.A., in general, risk-taking is limited, in nature and extent, to those which, according to principles of sound and prudent management, are the risks considered ordinary.

On April 26, 2017, the Board of Directors approved a new version of the "Risk Management Manual", which replaced the one of February 22, 2007, which set out, on the one hand, the general principles for managing the company's main risks, consistently with the strategic objectives identified and, on the other, the methods of coordination between the entities involved in order to maximize the effectiveness and efficiency of the Internal Control and Risk Management System.

The Manual sets forth that the General Manager, as the company's Risk Owner, has the responsibility and ownership for the management of company risks, with the exclusion of "Environmental risk" and "Health and safety risk" for which the responsibility falls to the "Employer" of the various Organizational Units. The Risk Owner and the Employer are supported by Management in identifying and assessing risks, as well as defining the risk management policies.

The company distinguishes two risk macro-categories: **Financial and Market Risks** and **Other Risks**. Financial and Market Risks mean those deriving from the impact they could have on margins and expected cash flows and, more specifically: future fluctuations in one or more specific interest rate or exchange rates, financial instruments, prices of energy and raw materials, prices of CO^2 emission rights. Other types of risk that are also associated to the category of financial risks, and in particular credit and liquidity risk, are dealt with separately.

Financial and Market Risks include **Market Risk, Interest Rate Risk** and **Exchange Rate Risk**. By contrast, the following sub-categories are also included in Other Risks: ***Counterparty Risk, Liquidity Risk, Environmental Risk, Legal Risk, Legislative/Regulatory Risk, Image Risk and Health and safety risk.***

The different types of risk are monitored in order to assess the potential adverse effects and take the appropriate actions to mitigate them. The optimization and the reduction of the level of risk is pursued through an adequate organizational structure, the adoption of rules and procedures, the implementation of certain trade and procurement policies, the use of insurance coverage and hedging derivative financial instruments.

We focus below on the risks, from those listed, with the biggest impact for the company.

Market Risk

Market risk is the risk that the value of a financial instrument, as defined by IAS 32, will fluctuate because of changes in market prices or exchange rates.

Owing to the nature of its business, the Company is exposed to changes in the prices of electricity, fuel and environmental costs (CO^2 emission rights) that can significantly influence the financial results.

To mitigate this exposure, it has developed a strategy of stabilizing margins by means of the early negotiation of fuel supply. Through formulas or indexing, the company pursues, as far as possible, a policy of standardization between sources and physical uses.

The Company has also implemented a formal procedure that provides for the measurement of the residual price/commodity risk and the implementation of hedging operations. Hedging transactions may have the objective of stabilizing the margin on an individual transaction or a group of similar transactions, or to limit overall exposure to price risk. Tirreno Power does not adopt speculative positions in financial instruments.

Interest rate risk on cash flows

The exposure to risk of changes in the Company's interest rate is linked primarily to the financial debt, part of which is at floating rate. The Company, taking into account the contractual obligations, regularly assesses its exposure to the risk of changes in interest rates and manages these risks through the use of non-speculative derivative financial instruments.

The Hedging policy aims to stabilize cash outflows relating to financial expenses, reducing the effects of increases in interest rates and at the same time retaining some of the benefits associated with a reduction of the same through a combination of debt between fixed and floating rate.

On May 9, 2017, in order to hedge part of Tranche A, the company subscribed an Interest Rate Cap, with a level equal to 0.5% on the 6-month Euribor for an initial notional value of Euro 196,800 thousand, with expiry and amortization in proportion to the repayment plan of Tranche A. The value of this instrument, paid on the subscription date, came to Euro 1,880 thousand. As at December 31, 2017, the mark-to-market value of the instrument stood at Euro 1,235 thousand.

Counterparty Risk

Counterparty risk, or more commonly known as credit risk, represents the Company's exposure to potential losses arising from the default of a counterparty.

Credit risk is limited due to the characteristics and the creditworthiness of the customers served. The portfolio of accounts receivable is constantly monitored by the relevant departments. Tirreno Power also pays particular attention to the selection of prime counterparties (both commercial and financial), the evaluation of supplier references in terms of the customers served and respect for supply/service obligations, in the definition of contractual penalties in cases where the non-fulfillment of the obligation by the third party may have economic consequences for the company in the issue and request for guarantees, especially financial, for entering into derivative contracts according to ISDA standards.

As for the payment terms applied by most customers, deadlines are mostly concentrated within thirty or sixty days from billing, normally monthly and is carried out within the month following the month of the supply.

The table below shows that, at the reporting date, the credit risk is reduced given that the trade receivables relate either to counterparties with a high credit rating, and/or with whom supply contracts are also in place, for which the credit exposure is offset with the associated trade payable, substantially reducing the credit risk.

Information on counterparty quality (Thousands of Euro)	12.31.2017	%	12.31.2016	%
Receivables for sale of energy				
State-owned company [1]	23,325	25%	83,991	*51%*
Related parties	4,811	5%	-	*0%*
Other operators	63,512	69%	75,746	*46%*
Total receivables for sale of energy	**91,648**	**100%**	**159,737**	***97%***
Other counterparties	309	0%	5,007	*3%*
Total trade receivables	**91,957**	**100%**	**164,744**	***100%***

(1) Gestore del Mercato Elettrico S.p.A. (GME) and Terna S.p.A.

Liquidity Risk

The liquidity risk is related to the possibility that the Company is in a situation of difficulty in meeting the financial obligations arising from contractual commitments and, more generally, from its financial liabilities.

This risk is closely linked to the phase of refinancing that the Company is currently engaged in, as described in note 8 "Payables for loans".

The following table summarizes the contractual expiry date for the financial and trade assets and liabilities at the date of these financial statements.

Expiry of financial assets and liabilities (Thousands of Euro)	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Cash and cash equivalents	11,676				11,676
Derivative financial instruments	2	42	1,191		1,235
Trade receivables and other assets	133,398	10,211	25,143		168,751
Total financial assets	**145,075**	**10,253**	**26,334**	**-**	**181,662**
Trade payables	38,482	34,844	168,258	267,419	509,002
Trade payables and other liabilities	112,492	1,693	692	-	114,877
Total financial liabilities	**150,974**	**36,537**	**168,949**	**267,419**	**623,879**
Total net exposure	**(5,899)**	**(26,284)**	**(142,615)**	**(267,419)**	**(442,217)**

Environmental risk

This risk identifies the eventuality that the company may suffer negative consequences, in economic or capital terms, or damage to its reputation, or in terms of the safety of personnel, as a result of environmental pollution resulting from the operation of thermoelectric plants.

The company policy consists of the prevention of all forms of environmental pollution or environmental damage connected with the operation of its thermoelectric plants; of the prevention of possible risky events through the development and implementation of plant management and maintenance procedures certified according to ISO 14001 standards, of the development of regular technical-operating training programs for personnel in the field and in the mapping and analysis of near accidents; as well as of the transfer of risks through the stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents.

The company monitors and manages the risk through the following non-exhaustive list of analyses and instruments:

- stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents;
- implementation of an appropriate Environment Management System for the company and for thermoelectric assets, regulated by the proper Manual which conforms to the UNI ISO 14001 standards;
- development of regular technical-operating training programs for personnel in the field and the mapping and analysis of near accidents;
- plants in line with the Best Available Techniques.

Notes to the Balance Sheet

ASSETS

Non-current assets

1. PROPERTY, PLANT AND EQUIPMENT

Details of tangible assets are provided below, by individual category, along with the changes in the period:

(Thousands of Euro)	FIXED ASSETS IN OPERATION				FIXED ASSETS IN PROGRESS AND ADVANCES	BOOK VALUE
	Land and buildings	Plant and and equipment equipment	Industrial and commercial equipment	Other assets		
-historical cost at 12.31.2016	226,296	1,992,995	10,510	4,294	27,804	2,261,900
-write-downs (-) at 12.31.2016	0	(113,738)			(10,562)	(124,300)
-accumulated depreciation (-) at 12.31.2016	(127,278)	(1,250,144)	(9,687)	(3,611)		(1,390,721)
Opening values at 01.01.2017	**99,018**	**629,113**	**823**	**683**	**17,242**	**746,879**
Changes at 12.31.2017						
-acquisitions	605	14,293	70	12	16,514	31,494
-reclassifications		4,070				4,070
-disposals (-)						
of which:						
-historical cost		(363)	(1,513)		(10,562)	(12,438)
-accumulated depreciation		180	1,394			1,574
use of write-down provision					10,562	10,562
-amortisation	(7,706)	(47,365)	(171)	(220)		(55,463)
-commissioning	828	15,687			(16,515)	0
-other changes						
of which:						
-historical cost					(102)	(102)
-accumulated depreciation						
Total changes (B)	**(6,273)**	**(13,498)**	**(220)**	**(208)**	**(103)**	**(20,302)**
Changes at 12.31.2017	**92,745**	**615,615**	**603**	**474**	**17,140**	**726,577**
Of which						
-historical cost	227,729	2,026,682	9,067	4,306	17,139	2,284,924
-write-downs (-)	0	(113,738)			0	(113,738)
-accumulated depreciation (-)	(134,984)	(1,297,329)	(8,464)	(3,832)		(1,444,610)
Net value	**92,745**	**615,615**	**603**	**474**	**17,140**	**726,577**

As of December 31, 2017 the value of property, plant and equipment amounted to Euro 726,577 thousand. During the year, the Company reported investments totaling Euro 31,494 thousand, of which Euro 16,514 thousand related to "fixed assets in progress and advances" and Euro 14,980 thousand relating to the "fixed assets in operation".

Investments relating to fixed assets in operation (Euro 31,494 thousand including commissioning) primarily concerned:

- the Major Inspections of the NA4 combined cycle unit in Naples (Euro 11,184 thousand), of which Euro 4,376 thousand for costs incurred in 2017 and the remainder relates to the commissioning of fixed assets in progress as at December 31, 2016;
- the Major Inspections of the TV6 combined cycle unit of the Torrevaldaliga plant (Euro 8,135 thousand), of which Euro 778 thousand for costs incurred in 2017 and the remainder relates to the commissioning of fixed assets in progress as at December 31, 2016;
- blade spare parts of the VL5 combined cycle unit of the Vado Ligure plant (Euro 5,000 thousand);
- for the reverse osmosis system at the Torrevaldaliga plant (Euro 873 thousand).

The company investments in 2017 directly in the environmental fields for Euro 1,235 thousand, mainly related to the completion of the reverse osmosis system mentioned above, as well as investments in safety totaling Euro 1,751 thousand, mainly relating to the activities carried out at the Pescia, Bevera, Cairo and San Michele hydroelectric plants.

By contrast, as regards investments in fixed assets in progress and advances, amounting to Euro 16,514 thousand, note should be taken of the environmental adjustment and safety works at the hydroelectric plants (Euro 1,808 thousand), of the segmentation works to make the combined cycle autonomous from the decommissioned coal units of the Vado Ligure plant (Euro 1,363 thousand), as well as of the purchase of so-called Package 5 (Euro 12,065 thousand), which will involve the replacement of the first 6 rotor and stator sections of each compressor of the three gas turbines of the Torrevaldaliga Sud plant.

The reclassifications instead concern the capitalization of strategic spare parts already present in the warehouses of the Naples Plant (Euro 2,173 thousand) and the Torrevaldaliga plant (Euro 1,897 thousand), as a result of current plant operations. For more details, please refer to the comments on the item Inventories, in note no. 7.

The disposals refer to the disposal of industrial equipment and machinery at the Vado Ligure plant.

The impairment test as at December 31, 2017 was performed on the sole CGU of Tirreno Power, using the cash flows relating to the 2018-2039 period, extrapolated from the Business Plan, forming the basis of the Restructuring Agreement, updated on March 13, 2018 to take account of all additions and changes in regulatory and industrial terms which took place in the three-year period, which will have repercussions in future years, and taking into consideration the most recent REF-E scenario of November-December 2017. The year 2018 also acknowledges the data of the budget approved by the Board of Directors on January 25, 2018.

The impairment test showed a recoverable amount exceeding the net book value; therefore, there was no need for further write-downs of corporate assets. In fact, the recoverable amount at December 31, 2017 amounted to Euro 1,066 million, while net invested capital amounted to Euro 701 million.

The discount rate of operating cash flows (WACC) used was 6.16%, consistent with the same rate used by the external consultant commissioned, as a result of the Restructuring Agreement, to carry out the evaluation of the cash flows of the company in order to measure the fair value of instruments financial equity (SFP Junior). The sensitivity analyses carried out on the recoverable amount to a change of +/- 100 bps in the WACC and on the Risk scenario, with a 10% reduction in margins, confirm the results of the impairment test.

The **Depreciation** of tangible assets charged to the period mainly affected the combined cycle thermoelectric production sites (Euro 42,066 thousand), the relevant Major Inspections (Euro 9,835 thousand) and restoration costs (Euro 441 thousand), and are calculated using the economic-technical rates representative of the useful life of each component.

As for freely transferable assets, depreciation is proportional to the duration of the associated concession if shorter than the useful life.

Tangible assets at December 31, 2017, classified according to their use, are divided as follows:

Plant types	Original cost	Accumulated depreciation	Net value	Write-down provision	Net reported value
Production plants					
Thermoelectric plants	2,128,619	(1,372,896)	755,723	(113,738)	641,985
Freely transferable assets	2,132	(2,126)	6		6
Total	**2,130,751**	**(1,375,022)**	**755,729**	**(113,738)**	**641,991**
Renewable Sources Plants	86,531	(38,886)	47,645		47,645
Freely transferable assets	30,060	(13,758)	16,302		16,302
Total	**116,591**	**(52,644)**	**63,947**		**63,947**
Total production plants	**2,247,342**	**(1,427,666)**	**819,676**	**(113,738)**	**705,938**
Other plants and machinery,	20,442	(16,944)	3,498		3,498
Total operating assets	**2,267,784**	**(1,444,610)**	**823,175**	**(113,738)**	**709,437**
Fixed assets in progress and advances	17,140		17,140		17,140
Total	**2,284,925**	**(1,444,610)**	**840,315**	**(113,738)**	**726,577**

As at December 31, 2017 there are no tangible assets for which any collateral securities have been granted to third parties.

2. INTANGIBLE ASSETS

A table is provided below, which details the original values and changes:

(Thousands of Euro)	Industrial patents and software applications	Concessions licences	Fixed assets in progress and advances	BOOK VALUE
-historical cost at 12.31.2016	8,628	2,970	4,848	16,446
-accumulated depreciation (-) at 12.31.2016	(7,824)	(31)		(7,855)
Opening values at 01/01/2017 (A)	*804*	*2,939*	*4,848*	*8,591*
Changes at 12.31.2017				
-acquisitions	265	22,617	130	23,012
-reclassifications	50	4,798	(4,848)	0
-amortisation (-)	(520)	(1)		(521)
-write-downs (-)				
-other changes	(13)	(10,999)		(11,012)
Total changes (B)	**(218)**	**16,415**	**(4,718)**	**11,479**
Values at 12.31.2017 (A+B)	*586*	*19,355*	*130*	*20,070*
Of which				
-historical cost	8,930	19,386	130	28,446
-write-downs (-)				
-amortisation (-)	(8,344)	(32)		(8,376)
Net value	*586*	*19,355*	*130*	*20,070*

The item concessions and licenses essentially refers to 2,730,351 CO_2 emission rights for an amount of Euro 19,343 thousand, with delivery in 2018.

The increase in CO_2 quotas relates to the purchase of 4,899,000 emission rights for a total of Euro 27,415 thousand, of which Euro 4,798 thousand purchased on account in the year 2016 and received in the first few months of 2017. The decreases instead relate to the delivery of 2,168,649 CO_2 certificates for Euro 10,999 thousand, in compliance with the company's obligations for 2016.

Both the CO_2 rights that the company holds in its portfolio as at December 31, 2017 and those for which delivery is deferred are purchased in order to comply with the obligations set forth for the year 2017.

3. NON-CURRENT FINANCIAL ASSETS

This item refers to financial receivables due after 12 months.

(in thousands of Euro)	12.31.2017	12.31.2016	Changes
- loans to personnel	559	649	(90)
- security deposits	24,584	16,937	7,647
Total non-current financial assets	**25,143**	**17,586**	**7,557**

Security deposits mainly include, for Euro 18,212 thousand, the part of the credit relating to the free emission quotas for the Naples Plant paid by the Ministry of Economic Development in December 2016 and February 2017 to Intesa Sanpaolo S.p.A., as assignee of the aforementioned credit transferred by the Company during the phase of refinancing as collateral to the committed credit line for guarantees. This amount increased compared to December 31, 2016 by virtue of the collection of Euro 7,717 thousand in February 2017 and, as a result of the signing of the "Amendment Agreement" described in the paragraph "Significant events after the close of the period", was paid to the lending banks in February 2018 as cash sweep in respect of the installment payments envisaged for June and December 2018.

The item also includes the deposit in favor of Terna SpA for the dispatching contract for the injection and withdrawal points issued in 2015 (Euro 6,056 thousand).

It should be noted that "loans to employees", remunerated at current market rates and guaranteed by TFR (post-employment benefits), were granted for the purchase of a first home or to meet important family needs.

As at December 31, 2017, there were no financial assets carried at a value greater than their fair value.

4. DEFERRED TAX ASSETS

This item includes deferred tax assets whose composition is as follows:

(in thousands of Euro)	SITUATION AT 12/31/2016	SITUATION AT 12/31/2017			
	Balance	Provisions	Uses	Other changes	Balance
Deferred tax assets					
Provisions for risks and charges and other write-downs	4,275		(479)		3,796
Reduction in value from estimate of recoverability	(3,796)				(3,796)
Total	**479**		**(479)**		**0**
FV IAS 19 to Shareholders' equity reserve	590	351	(351)		590
Total deferred tax assets	**1,069**	**351**	**(830)**		**590**

Similar to what was already done in the previous year, the Company decided not to proceed with the recognition of the estimate of deferred tax assets accrued during the year for Euro 16,820 thousand, mainly relating to the tax loss in the year.

Deferred tax assets as at December 31, 2017 on the tax losses, accrued in the year and in previous years, and on the deductible temporary differences totaled Euro 96,283 thousand, but were still not recognized given that, at the moment, it is not deemed likely that sufficient taxable income will be generated for their full absorption in a reasonable period of time.

5. OTHER NON-CURRENT ASSETS

The item, amounting to Euro 10,211 thousand, includes exclusively the residual credit for ETS quotas payable for the years 2010 to 2012 to the new plant owners, who were not satisfied with the so-called 'new entrants reserve'.

The latter amount is accounted for on the basis of criteria developed in accordance with Resolutions ARG/elt 77/08 and ARG/elt 117/10 of the AEEG and Decree Law no. 72 of 20/05/2010, as at December 31, 2014, for the Naples plant.

It should be noted that, in relation to the terms of the Restructuring Agreement, the credit of the ETS quotas indicated as at December 31, 2017, was transferred to Intesa Sanpaolo S.p.A. (as Issuer Bank), as guarantee for the obligations deriving from the new endorsement loan agreement. These credits were subject to retrocession in February 2018 by the bank in relation to the signing of the "Amendment Agreement", as described in the paragraph "Significant events after the close of the period".

As at December 31, 2016, the item also included the VAT credit for which a refund was requested, for the year 2016 (Euro 23,000 thousand), collected in full in the current year.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The item, amounting to Euro 1,235 thousand, includes the mark-to-market value as at December 31, 2017, of the interest rate hedge stipulated in May 2017. In particular, in order to hedge part of Tranche A, the company subscribed an Interest Rate Cap, with a level equal to 0.5% on the 6-month Euribor for an initial notional value of Euro 196,800 thousand, with expiry and amortization in proportion to the repayment plan of Tranche A. The value of this instrument, paid on the subscription date, came to Euro 1,880 thousand.

7. CURRENT ASSETS

(in thousands of Euro)	12.31.2017	12.31.2016	CHANGES
Inventories	14,502	21,293	(6,791)
Trade receivables	91,957	164,744	(72,787)
Other current assets	40,153	38,464	1,690
Other current financial assets	1,288	2,562	(1,274)
Cash and cash equivalents	11,676	53,017	(41,342)
Total current assets	**159,575**	**280,079**	**(120,504)**

Details of the individual items are outlined below:

Inventories

Inventories of fungible goods, as regards the method for determining the purchase price, show a balance sheet valuation based on the weighted average cost method.

However, as a result of events that occurred and the decisions taken in relation to the Vado Ligure site, it was considered necessary to eliminate the value of the inventories related to the coal units, given that they are no longer usable in the production process.

In 2017, activities commenced to dispose of these tangible assets, via competitive auctions for homogeneous groups. In particular, goods were sold/scrapped for a sale value of Euro 685 thousand, compared to a net residual book value of Euro 206 thousand (original inventory value of Euro 17,695 thousand, written down by Euro 17,489 thousand).

Furthermore, in 2017 a project was launched to rationalize inventories of spare parts, both with a view to checking quantities in stock, previously performed on a rotational and sample basis, and with an eye on future use, in consideration of the current plant operations.

In particular, movements in the warehouses of the Naples and Torrevaldaliga Sud plants were analyzed after the completion of the first Major Inspections of both production sites. The analysis showed that the scheduled shutdowns to be performed once the first 50 thousand equivalent operating hours had been reached, were carried out well after the dates initially estimated (which took as a reference much greater use of the plants than that registered in the last few years), and, on the other, that the use of the spare parts in the warehouse was much lower than expected. Therefore, with the help of the company's technical management and an external consultant, it was deemed appropriate to identify all those spare parts that, even if not moved in the last years, qualify as "strategic", since their moment of use in the plant is not established beforehand, but are necessary to cover any breakages or malfunctioning and, therefore, their presence in the warehouse helps avoid, in the event of a fault, economic damage for the company, allowing the rapid replacement of the relevant part and return to operation of the plant. In light of the above, these spare parts, which totaled Euro 4,070 thousand, recorded under inventories given that provision is made for their use during scheduled shutdowns, were reclassified as tangible assets and subject to depreciation, applying the same time period as the asset to which said spare parts relate.

In addition, again in light of the analysis of the movements in the inventories highlighted above, doubts emerged regarding the possible use and/or sale of some non-strategic materials, doubts that were confirmed by the recent Major Inspections during which their use was reduced or were not used at all. Therefore, for these materials, a provision was set aside, for the adjustment of their value, totaling Euro 1,742 thousand.

Details of inventories are provided below by type:

(in thousands of Euro)	12.31.2017	12.31.2016	CHANGES
Tangible inventories	14,324	20,982	(6,658)
Fuel inventories	93	142	(50)
Other inventories	85	168	(83)
Total inventories	**14,502**	**21,293**	**(6,790)**

The change in inventories relates essentially to the decrease in inventories of materials, amounting to Euro 6,658 thousand, as a result of the rationalization of inventories highlighted above.

Trade receivables

This item, amounting to Euro 91,957 thousand, mainly includes trade receivables for the sale of energy and other materials.

(in thousands of Euro)	12.31.2017	12.31.2016	Changes
Receivables for sale of energy:			
-GME	4,977	68,610	(63,633)
-Terna S.P.A.	18,348	15,381	2,967
- Other operators	68,323	75,746	(7,423)
Total receivables for sale of energy:	**91,648**	**159,737**	**(68,089)**
Other trade receivables	309	5,007	(4,698)
Total trade receivables	**91,957**	**164,744**	**(72,787)**

It should be noted that almost all of these receivables arose over the last two months of the year and to the date of this note is essentially fully collected or collectible, given that the relevant expiries are in 30/60 days.

The reduction in trade receivables of Euro 72,787 thousand is mainly due, as of December 1, 2016, to the start of the weekly settlement with GME. In fact, at the end of 2016, the credit balances were impacted by power exchange sales in November and December 2016 still to be settled.

Other current assets

The item, amounting to Euro 40,153 thousand, mainly includes tax credits. The latter, at the balance sheet date, amounted to Euro 35,125 thousand and essentially include the receivable due from the tax authorities for the VAT recorded in 2017 from monthly settlement of tax (Euro 33,248 thousand).

The following VAT credits were collected in 2017:

- ✓ annual 2015 VAT (Euro 21,000 thousand);
- ✓ 2nd quarter 2016 (Euro 6,100 thousand);
- ✓ 1st quarter 2017 (Euro 11,500 thousand)

The item also includes loans to shareholders, amounting to Euro 2,351 thousand, relating to IRES (corporate income tax) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax.

Lastly, receivables due from social security institutions were booked for a total of Euro 1,112 thousand relating essentially to sums paid in advance to employees for social shock absorbers relating to the Cassa Integrazione Guadagni Straordinaria (Extraordinary Wages Guarantee Fund) and previous solidarity contracts.

Other current financial assets

Other current financial assets, amounting to Euro 1,288 thousand, refer essentially to shares of commissions for sureties paid and not yet accrued for Euro 1,259 thousand.

Cash and cash equivalents

The item, amounting to Euro 11,676 thousand includes, essentially, the positive balances of accounts held with leading banks.

LIABILITIES

8. SHAREHOLDERS' EQUITY

For information on changes in shareholders' equity, please refer to the statement of changes in shareholders’ equity in these financial statements.

The item “Other reserves”, amounting to Euro 138,530 thousand, is composed as follows:

- the reserve from contribution of subscription of Junior PFIs amounting to a nominal Euro 284,386,754, approved at the Extraordinary Shareholders’ Meeting on December 16, 2015 and recorded at fair value, amounting to Euro 204,000,000. This reserve was also reduced for the coverage of losses resolved at the same extraordinary shareholders’ meeting amounting to Euro 88,735 thousand. The amount of this reserve at December 31, 2017, is therefore Euro 115,265 thousand;
- Legal reserve for Euro 695 thousand;
- Available reserve for coverage of losses for Euro 22,707 thousand;
- IAS 19 Reserve - Post-employment and other benefits, negative for Euro 456 thousand.
- IAS 39 Reserve - positive Interest Rate CAP of Euro 321 thousand.

The latter reserve includes the intrinsic value (net of the related tax effect) of the derivative financial instrument described in note 6, while the IAS 19 reserve includes gains and losses on discounting (net of the associated tax effect), determined as indicated in point 11.

It should be noted that, on April 26, 2017, the Shareholders’ Meeting approved the financial statements of Tirreno Power S.p.A. as at December 31, 2016, also resolving to allocate the net loss of Euro 58,689,739 as follows:

- Euro 13,195,857 through the use of the retained earnings reserve;
- Euro 45,493,882 through the use of the available reserve for the coverage of losses.

The share capital at December 31, 2016 is represented by 60,516,142 ordinary shares with a nominal value of Euro 1.00 each, fully paid up and held by ENGIE Italia S.p.A. (50%) and ENERGIA ITALIANA S.p.A. (50%).

Details of items of shareholders' equity and an indication of their possibility of use and distribution, as well as their use in previous years, is provided below:

Nature/description	Amount	Possibility of use	Amount available	Summary of uses made in previous three years	
				To cover losses	For other reasons
Share capital:	60,516				
Capital reserves:					
Reserve from contribution of subscription of S	115,265	B			
Available reserve for coverage of losses	22,707	B		45,494	
Profit reserves:					
Legal reserve	695	B			
CFH and IAS 19 reserves	-456	B			
CFH Interest Rate CAP Reserves	321	B			
TOTAL RESERVES	**138,530**				

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

The Participating Financial instruments (PFIs), as defined in art. 2346, paragraph 6 of the Italian Civil Code, are financial instruments with equity or administrative rights, excluding voting rights at the shareholders' meeting. The articles of association govern their methods and conditions of issue, the rights of entitlement, sanctions for non-performance of the services and, if permitted, the methods of circulation. The PFIs are therefore included in the so-called hybrid financial instruments. This definition means instruments with similar characteristics, both shares and obligations in relation to the characteristics outlined for the instrument, but with their own identity.

Each financial instrument is measured according to its own characteristics, from which is also derived the valuation method that is better able to define the value. The features of the PFIs can be identified by their own regulation.

The Junior PFIs are fully regulated by the Articles of Association of the Company, and more precisely, Annex 1 "Regulations of the participating financial instruments of the Senior and Junior categories of Tirreno Power S.p.A.".

PFIs do not, under any circumstances, entitle holders the right to attend or to vote at the ordinary and extraordinary shareholders' meeting of the Company.

NON-CURRENT LIABILITIES

9. PAYABLES FOR LOANS

Payables for loans refer to the Restated Facilities Agreement signed with the financial institutions on December 15, 2015.

The credit lines that compose it are indicated below:

- "Tranche A" of Euro 300,000 thousand, to be repaid based on a repayment plan starting from a date no earlier than June 30, 2017, remunerated at the Euribor rate + 2.07%, maturity in December 2022 (+ optional extension for another 2 years);
- "revolving credit facility" of Euro 50,000 thousand remunerated at the Euribor rate + 2% with the possibility of repayment and drawdown up to the maturity date set for December 2022 (+ optional extension for another 2 years);
- Tranche B of Euro 250,000 thousand ("convertible" credit line), remunerated at a rate of 3.42% PIK, maturity in December 2024 (with the possibility of optional extension for another 2 years);
- Hedging credit line of Euro 2,309 thousand repaid with repayment plan comprised of 6 semi-annual installments starting from June 30, 2017, remunerated at the Euribor rate + 2%.

As for the "mandatory convertible bond", the Company will have the right to arrange for its full or partial conversion in the following cases:

- to meet capital / financial requirements for operations;
- remedy capital deficiencies;
- address violations of the leverage ratio.

As at December 31, 2017, interest totaling Euro 27,019 thousand was capitalized, as an increase in the credit lines, of which Euro 9,600 thousand relating to the "term loan A" and Euro 17,419 thousand relating to the mandatory convertible bond credit line.

The Restated Facilities Agreement requires, at the end of each half, the cash and cash equivalents exceeding Euro 50,000 thousand (from June 30, 2017 account is also taken of the available revolving line), to be used for the early repayment of the credit lines, starting with Tranche A and on a pro-rata basis on the expiries of the repayment plan, together with interest capitalized on the principal portion repaid early. Based on this mechanism, in 2017 the company arranged for the early repayment, for an amount of Euro 70,211 thousand, of the principal portion of Tranche A and Euro 28,663 thousand in February 2018, using the excess cash and cash equivalents as at December 31, 2017, as described in the "Significant events after the close of the period".

In relation to the above, provision was made for the reclassification to current liabilities of the payable relating to installments falling due in June and December 2018 on the Tranche A line, as well as on the

Hedging line, as per the contractual amortization plan. The amendments to the agreement defined in the Amendment Agreement signed with the pool of banks on February 1, 2018 is described in the paragraph "Significant events after the close of the period".

10. PROVISIONS FOR RISKS AND CHARGES

The provisions for risks and charges amounted to Euro 83,267 thousand, a decrease of Euro 18,531 thousand compared to December 31, 2016.

The size of the provision and the changes are summarized below:

(in thousands of Euro)	12.31.2016	Allocations	Uses	Other changes	12.31.2017	of which current	of which non-current
Dispute provision	**2,473**	**35**	**(296)**	**(801)**	**1,411**		**1,411**
Provision for expenses for redundancy i	**19,889**	**518**	**(15,636)**	**(3,492)**	**1,279**	**1,279**	
Provision for expenses for mobility ince	**600**			**(500)**	**100**		**100**
Provision for sundry risks:	**78,836**	**8,534**	**(8,681)**	**1,789**	**80,478**	**13,195**	**67,283**
- site dismantling and restoration	*65,862*	*5,848*	*(5,834)*	*700*	**66,576**	5,713	60,863
- other	*12,975*	*2,686*	*(2,847)*	*1,089*	**13,903**	7,482	6,421
Total provisions for risks and charges	**101,798**	**9,087**	**(24,613)**	**(3,004)**	**83,267**	**14,474**	**68,793**

The **allocations** in the period, amounting to Euro 9,087 thousand, increased the provisions, mainly owing to the following:

- Euro 1,980 thousand as the revision of the estimated expenses for the dismantling of combustible oil tanks of the Torrevaldaliga plant.
- Euro 2,679 thousand for the recognition of financial costs on dismantling provisions connected to the discounting of the estimate of future dismantling costs;
- for Euro 1,190 thousand, the adjustment to the estimates relating to the ICI/IMU (municipal property tax/single municipal tax) disputes in progress for previous years;
- Euro 1,189 thousand for the adjustment of the estimated costs of dismantling the oil tanks of coal plants;
- for Euro 310 thousand, the estimate of the state fee pending the definitive release of the new concession for the areas of the Naples Plant;
- for Euro 419 thousand, the estimate of the charges to be paid to advisors in the form of success fees in relation to the Waiver on the debt Restructuring Agreement with Banks, signed on February 1, 2018;
- Euro 347 thousand for beneficiaries' requests for recognition of mountain catchment basin additional fees for the Ponte Vizzà plant for the years 2012 to 2017.

As regards **uses**, in relation to payments made during the year, the following should be noted in particular:

- Euro 15,636 thousand for redundancy incentives provided to personnel, who ended their employment in the half, based on the redundancy management agreement signed on December 2, 2016, as well as Euro 274 thousand relating to other redundancy management costs provided for in the agreement;
- Euro 2,934 thousand for expenses for the demolition of the Torrevaldaliga plant tanks;
- Euro 2,835 thousand for the demolition of some parts of the coal plants and associated chimney stack;
- Euro 928 thousand for MBO bonuses relating to results achieved by the assignees in 2016, as well as performance bonuses for 2017 for employees;
- Euro 550 thousand for restoration works carried out at hydroelectric plants in relation to the damages caused by floods that occurred in 2016.

As regards **other changes**, the following should be noted in particular:

- Euro 3,492 thousand relating to the write-off the surplus amount of the voluntary redundancy provision, net of a residual provision which takes account of the better estimate of the potential legal proceedings of two employees who did not sign any agreement with the company;
- Euro 565 thousand for the excess provision for disputes and litigation with respect to the commitments undertaken as a result of the reconciliation statement concerning an asbestos-related dispute;
- Euro 500 thousand for the surplus of part of the mobility provision, due to the accrual of the pension right for 11 former employees who were beneficiaries of the 2014 mobility agreement;
- Euro 112 thousand relates to the write-off of part of the provision as a result of the partial repayment of the escrow deposit following the favorable outcome to Tirreno Solar’s ICI (municipal property tax) dispute;

The provision for other risks includes Euro 66,576 thousand for the estimated discounted costs expected to be incurred at the end of production activities of the Torrevaldaliga, Naples and Vado Ligure sites due to abandonment of the area, dismantling, removal of structures and restoration of the site in the presence of current obligations. A total of Euro 5,055 thousand was also allocated for the imbalance charges of previous years, Euro 2,746 thousand for ICI/IMU disputes, Euro 1,566 thousand for meritocracy initiatives and productivity bonuses and, finally, Euro 930 thousand for the estimate of State fees for the new concession of the Naples plant.

The most significant outlays related to the dismantling and restoration works will be incurred over a period between 2020 and 2039.

The "dispute" provision includes liabilities that are estimated could result from ongoing legal disputes (mainly related to supply relations, work and the operation of the plants), according to the recommendations of the Company's internal and external legal representatives.

As for the asbestos dispute, for which Euro 1,173 thousand was allocated, the following should be noted:

1. as regards the application for social security benefits resulting from more than ten years of alleged exposure to asbestos and the assessment of the differential damage of 16% for occupational disease already recognized by INAIL (National Institution for Insurance against Accidents in the Workplace), at the current stage, the outcome of the dispute cannot be predicted albeit, in light of the case-law on the subject and the opinion of legal advisors assisting the Company, the risk of being the losing party can be classified as probable. At the current state of play, the case has been put back to the hearing of May 23, 2019.
2. as regards the proceedings in which the Company is the defendant, together with Enel S.p.A. and Enel Production S.p.A., for the compensation for all non-pecuniary damages under art. 2087 of the Italian Civil Code that would have been suffered by a former employee based on the contraction of lung cancer attributable to occupational exposure to asbestos, at the hearing on December 21, 2016, based on the lateness in filing the expert's report with respect to the final deadline set by the Judge, the latter declared the court-appointed expert witness report to be invalid, ordering it to be renewed. At the hearing on March 29, 2017, the Judge, having recognized the absence of any response to the critical observations on part of the draft report of the court-appointed expert, as well as the incompleteness of the copy of the medical folder filed in the records, ordered a new CTU, appointing a new court-appointed expert report. At the current state of play, the case has been put back to March 28, 2018 for the examination of the new CTU. In light of the case law on the subject and the opinion of legal advisors assisting the Company, the risk of being the losing party is classified as probable.
3. In relation to the action brought by the heirs of a former employee who claim compensation before the Court of Savona for all the damages suffered, both iure proprio and iure hereditatis, due to the occupational illness contracted by their relative (pleural mesothelioma), following the hearing of all witnesses, both of the counterparty and of Tirreno Power, at the hearing on January 17, 2017, the claimant entered into the minutes its intention to accept the settlement proposal of the Judge already formulated at the hearing on December 1, 2015. The Judge adjourned the case to the hearing of March 28, 2017 to verify the outcome of the negotiations. On March 28, 2017, the case was settled and the Judge declared the proceedings closed. The sum paid to the plaintiffs (Euro 205 thousand) was divided equally between TP (50%) and the insurance company (50%). In addition, INAIL (national institute for insurance against accidents at work) which, at the proceedings, had presented a counterclaim against TP, by exercising the right of recourse, was paid the sum of Euro 110 thousand, it too divided equally between TP (50%) and the insurance company (50%).

Other information:

As regards the asbestos-related dispute, the Company filed an appeal against the ruling issued by the Civil Court of Civitavecchia in relation to the case brought by the heirs of a former employee for compensation for alleged damages suffered as a result of the occupational exposure to asbestos.

It should be noted that said heirs may file a cross-appeal for the reform of the first instance judgment, by requesting the payment, by way of iure hereditatis compensation, of an additional amount. At the hearing of June 19, 2017, given the Court of Civitavecchia had still not received the first instance ruling file, the Rome Court of Appeal announced the adjournment of the proceedings for the same parties to February 2, 2018.

Again as regards the asbestos issue, TP filed an appeal against the first instance judgment issued by the Civil Court of Rome, Labor Section, in relation to the case lodged by the heirs of a former employee, to obtain compensation for all damages, financial and non-financial, both iure hereditatis in accordance with art. 2087 of the Italian Civil Code and iure proprio pursuant to art. 2043 of the Italian Civil Code, allegedly suffered due to occupational exposure of the deceased to asbestos, who died because of a pleural mesothelioma. The Rome Court of Appeal, by means of a judgment filed on March 14, 2016, rejected the appeal submitted by Tirreno Power, fully compensating all first instance legal costs.

On September 14, 2016, Tirreno Power filed an appeal against this judgment to the Court of Cassation. We are currently waiting for a hearing to be set.

11. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

They amounted to Euro 14,285 thousand and reflect the severance pay and other benefits accrued at year-end by employees that are valued according to actuarial criteria of IAS 19 laid out for defined benefit plans. In particular, as regards the economic and financial scenario, the parameters used for the evaluation are as follows:

TFR	2017	2016
Annual technical discount rate	1.30%	1.31%
Annual inflation rate	1.50%	1.50%
Annual rate of increase in post-employment benefits	2.63%	2.63%

Other employee benefits	2017	2016
Annual technical discount rate	1.30%	1.31%
Annual rate of salary increase	0.50%	0.50%

The following table illustrates the changes:

(in thousands of Euro)	TFR	Energy discount for retirees	Substitute indemnity Electricity discount	Additional months' pay	Loyalty bonuses	BOOK VALUE
Values at 12.31.2016 (A)	**6,996**	**8,236**	**850**	**582**	**472**	**17,136**
Curtailment	***31***					***31***
- Provisions				8	3	11
- Financial expenses (+)	93	116	11	9	5	234
- Gains (losses) from discounting (-/+)	7	(33)	44	(20)	1	(1)
-Uses (-)	(2,286)	(415)	(343)	(26)	(57)	(3,127)
Total changes (B)	(2,155)	(332)	(288)	(29)	(48)	**(2,852)**
Values at 12.31.2017 (A+B)	**4,841**	**7,904**	**562**	**553**	**424**	**14,285**

The Curtailment reflects the effects of the conclusion of the Restructuring Plan (already subject to an estimate in the previous financial statements) targeted at managing redundant staff. For details, please refer to the Management Report. The negative effect, amounting to Euro 31 thousand, is recorded under Financial expenses.

Costs for employee benefits were also recognized in the year, amounting to Euro 245 thousand, of which Euro 234 thousand for interest recorded under financial expenses and Euro 11 thousand recorded under personnel costs.

Lastly, losses from discounting amounted to Euro 1 thousand and are recognized in the shareholders' equity reserve (net of taxes), excluding those relating to loyalty bonuses which are booked directly to the income statement.

As a result of the issuance of the new IAS 19 revised, the additional information is summarized in the tables below:

Sensitivity analysis of the main valuation parameters on data as at 12.31.2017

	TFR	Additional months' pay	Energy discount	Energy discount Indemnity
Inflation rate +0.25%	4,906,067.53	N/A	N/A	N/A
Inflation rate -0.25%	4,777,655.34	N/A	N/A	N/A
Discount rate +0.25%	4,739,210.64	540,417.43	7,664,875.93	549,012.83
Discount rate -0.25%	4,946,704.55	566,182.90	8,154,535.82	576,185.49

	TFR	Additional months' pay	Energy discount	Energy discount Indemnity
Pro future service cost	-	9,199.94	-	-
Duration of the plan	10	10.3	12.5	10.3

The number of employees by category is shown in the following table:

(units)	12.31.2016	Entries	Exits	Other /Reclassifications	12.31.2017
Executives and Middle Managers	44	1	4	3	44
Employees	223		64	-2	157
Workers	104		64	-1	39
Total	**371**	**1**	**132**	**0**	**240**

12. DEFERRED TAX LIABILITIES

The item includes deferred taxes relating to costs not charged to the income statement, but deducted from taxable income in the tax return, as detailed in the following table:

(in thousands of Euro)	SITUATION AT 12/31/2016	SITUATION AT 12/31/2017			
	Balance	Provisions	Uses	Other changes	Balance
Deferred tax liabilities					
Amortisation	37,320		(1,104)		36,216
FV IAS 19 to shareholders' equity reserve	69				69
FV of derivative financial instruments to shareholders' equity	0	101			101
Total deferred tax liabilities	**37,389**	**101**	**(1,104)**		**36,387**

The uses of the item "Amortization" refer to the completion of the time period of tax amortization for IRES purposes, with respect to the economic-technical one (statutory amortization).

13. OTHER NON-CURRENT LIABILITIES

The item, amounting to Euro 2,385 thousand, includes the non-current portion of the debt to the MATTM resulting from the settlement act signed in 2011 by means of which Tirreno Power was expressly and definitively freed from any obligation or liability in connection with the design and implementation of measures for the safety, environmental remediation and restoration of groundwater, surface water and marine sediments overlooking the site of Naples.

14. CURRENT LIABILITIES

(in thousands of Euro)	12.31.2017	12.31.2016	Changes
Payables for loans	38,482	8,083	30,398
Provisions for risks and charges	14,474	27,673	(13,199)
Trade payables	88,026	154,364	(66,338)
Other current liabilities	24,466	15,214	9,252
Short-term financial liabilities	0	23	(23)
Total current liabilities	**165,449**	**205,358**	**(39,910)**

Details of the individual items are outlined below:

Payables for loans

The item Payables for loans refer to the Restated Facilities Agreement signed with the financial institutions on December 15, 2015, as detailed in note 9.

Provisions for risks and charges

This item includes current liabilities for industrial expenses and risk, commented on in detail in Note 10.

Trade payables

"Trade payables", amounting to Euro 88,026 thousand, relate to fuel supplies, materials and equipment, tenders and services, as well as debts to TERNA and GME for supplies and activities carried out by December 31, 2017. The maturities of these debts are generally comprised between 30 and 120 days.

The decrease of Euro 77,584 thousand is due primarily to both the effect of the start of the weekly settlement with the GME starting on December 1, 2016 and the fall in purchases of energy and fuels the last two months of the period compared to the last two in 2016.

Other current liabilities

Other current liabilities, amounting to Euro 24,466 thousand, mainly refer to the payable relating to the expense pertaining to the year for CO_2 emissions rights (Euro 15,336 thousand) valued at weighted average purchase price.

The item also includes payables to employees and payables to social security, welfare and insurance institutions.

The table below provides a breakdown:

(in thousands of Euro)	12.31.2017	12.31.2016	Changes
Payables for CO2 emission rights	15,336	11,008	4,328
Other taxes	3,049	1,029	2,020
Payables due to social security institutions	1,168	1,633	(465)
Payables due to personnel	3,765	834	2,931
Other	1,148	710	438
Total other current liabilities	**24,466**	**15,214**	**9,252**

The increase in payables due to employees and taxes relates to fees to be paid in the first few months of 2018, and the associated withholding taxes, to employees who left the company in December 2017 as a result of the trade union agreement of December 2, 2016.

The increase in payables for emissions rights is attributable to the higher quotas to be delivered in 2018, to comply with the 2017 obligations, based on the higher production compared to the previous year.

The item "Other" mainly includes the current portion of the payable due to the Ministry of the Environment and for Land and Sea Protection, as better specified in note no. 13, amounting to Euro 917 thousand.

COMMITMENTS AND GUARANTEES

Commitments to suppliers are detailed below:

(in thousands of Euro)	12.31.2017	12.31.2016	Changes
Tenders and miscellaneous supplies	68,230	65,799	2,431
Purchase of thermal fuel	22,219	39,645	(17,426)
Total commitments to suppliers	**90,449**	**105,444**	**(14,995)**

Commitments for the purchase of thermal fuel relate exclusively to the term fixed on natural gas purchase contracts.

The sureties requested in favor of third parties, amounting to Euro 151,557 thousand, concern policies issued by banks and insurance companies, at the request of the Company, and relate mainly to the guarantee of the VAT credit (Euro 121,226 thousand), the participation in the energy markets (Euro 26,000 thousand), as well as the guarantee for state concessions (Euro 2,227 thousand).

Notes to the Income Statement

15. REVENUES

The table below provides a breakdown of sales revenues:

(in thousands of Euro)	12.31.2017	12.31.2016	CHANGES	CHANGES %
Sale of energy:				
- Power Exchange	530,945	397,706	133,239	34%
- Free market	462,468	333,433	129,035	39%
- incentivised contributions - ex Green Cer	5,648	7,201	(1,553)	-22%
- photovoltaic contributions	30	31	(1)	-3%
Total energy sales:	**999,091**	**738,371**	**260,720**	35%
Other sales and services	1,533	109	1,424	1306%
Total revenues from sales	**1,000,624**	**738,480**	**262,144**	**35%**

Tirreno Power's commercial portfolio consists of two types of customers, customers that operate in the free market and those, instead, that operate on the power exchange. Revenues from Power Exchange sales include the results of trading on the dispatching services market. Sales on the free market instead refer to physical bilateral contracts.

The increase relates to the higher sales volumes attributable to the trading in the Dispatching Services Market, thanks to the excellent performances of the NA4, TV5 and VL5 units and greater sales volumes in the day-ahead market as a result of more favorable market margins.

The item “Other sales and services” refers mainly, for Euro 685 thousand, to revenues generated by the sale of materials in the warehouses relating to the coal facilities decommissioned and, for Euro 713 thousand, to the reimbursement of excise duty obtained from the Customs Agency, as a result of the requests presented following the sales of coal and combustible oil in 2016.

16. OTHER REVENUES

“Other revenues” of Euro 4,358 thousand refer mainly to the release of the voluntary redundancy provisions for Euro 3,492 thousand; the release of the provision for risks of the Escrow deposit of Tirreno Solar for Euro 112 thousand and the adjustment, for Euro 270 thousand, of the lay-off provision and the provision for disputes and litigation.

17. OWN WORK CAPITALIZED

The item totaled Euro 1,022 thousand, relating to the capitalization of materials taken from the warehouse, used for the Major Inspections capitalized during the year.

18. CONSUMPTION OF RAW MATERIALS

(in thousands of Euro)	12.31.2017	12.31.2016	CHANGES	CHANGES %
Energy purchased on the Electricity Market	530,261	393,619	136,642	35%
Purchase of fuel for heat production	330,575	231,093	99,482	43%
Purchase of materials and other equipment	2,799	2,908	(109)	-4%
Change in fuel stocks	4	1	3	n.s.
Change in other stocks	363	(40)	403	n.s.
Total consumption of raw materials	**864,002**	**627,581**	**236,421**	**38%**

The increase relates mainly to higher energy purchases to meet the sales under contract in the hours when the electricity purchase prices were lower than the marginal costs of production and also to higher purchases of methane gas in relation to greater volumes of energy produced.

The purchase of fuels is related, exclusively, to the natural gas supply contracts.

For more details, please refer to the Management report.

19. PERSONNEL COSTS

Labor costs amounted to Euro 20,114 thousand, a decrease of Euro 3,636 thousand compared to the figure recorded in 2016.

The decrease is primarily attributable to the effects of the decrease in average numbers compared to 2016, as a result of the mobility agreement signed on December 2, 2016 and concluded on December 19, 2017.

The headcount at December 31, 2017 amounted to 240 employees, compared to 371 employees at December 31, 2017

20. SERVICE COSTS

Service costs, amounting to Euro 24,358 thousand, are detailed below:

(in thousands of Euro)	12.31.2017	12.31.2016	CHANGES	CHANGES %
Costs of services and tenders	14,240	12,879	1,360	11%
Expenses for transactions on the Electricity Market	1,456	1,700	(244)	-14%
Insurance costs	2,433	2,715	(282)	-10%
Security, cleaning and other building costs	571	666	(95)	-14%
Waste disposal	460	605	(145)	-24%
IT services	1,564	1,400	164	12%
Telephone and data transmission expenses	722	740	(18)	-2%
Other services	2,912	2,452	461	19%
Total service costs	**24,358**	**23,157**	**1,202**	**5%**

"Other services" mainly relate to costs for studies, consulting and professional services (Euro 1,910 thousand), expenses for travel and training (Euro 372 thousand), the fees of the Statutory Auditors (Euro 216 thousand), as well as the remuneration to the auditing firm (Euro 105 thousand).

Environmental expenses amounted to Euro 776 thousand and safety-related expenses came to Euro 854 thousand.

21. OTHER OPERATING COSTS

Other operating costs amounted to Euro 34,280 thousand, down by Euro 18,463 thousand compared to December 31, 2016.

The following table shows a breakdown of other operating costs:

(in thousands of euro)	12.31.2017	12.31.2016	CHANGES	CHANGES %
Contributions and fees	3,418	3,262	156	5%
Provisions for risks and charges	6,408	32,540	(26,133)	-80%
Adjustment of value of materials and raw materials	2,286	364	1,922	n.a.
Expenses for green certificates and CO2 rights	15,336	11,008	4,328	39%
ICI (municipal property tax) and other taxes and duties	3,507	3,386	121	4%
Other expenses	3,325	2,181	1,143	52%
Total operating costs	**34,280**	**52,743**	**(18,463)**	**-35%**

The variation relates primarily to the lower provisions for risks and charges (for details please refer to note 10) which, last year, included Euro 20,229 thousand in expenses for the voluntary personnel redundancy expenses, and higher expenses for emissions rights (Euro 4,328 thousand) as a result of higher emissions in the period (approx. 406 Ktons); as well as the allocations registered as an adjustment to the value of warehouse inventories amounting to Euro 2,242 thousand, as described in note 7.

In addition, due to Terna's recalculation of the capacity payment for 2015 (second component) and for 2016 (first component), an extraordinary loss of Euro 2,110 thousand was recorded in the period under Other expenses.

22. AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

The item refers to the depreciation/amortization in the period, calculated on the basis of economic-technical rates, totaling Euro 55,985 thousand.

The decrease in depreciation is mainly due to the lengthening of the useful life of some gas turbine components (blades and burners) of the Torrevaldaliga Sud power plant, following the revision of the estimated length of the shutdowns for the Major Inspections performed on the basis of the updated assumptions of operation of the plants. This modification reduced depreciation by Euro 4,679 thousand in 2017.

The table below sets out the depreciation by type of asset compared with data for the previous year:

(in thousands of Euro)	12.31.2017	12.31.2016	CHANGES	CHANGES %
Depreciation of buildings	7,706	7,674	33	0%
Depreciation of plant and equipment	47,365	51,263	(3,898)	-8%
Depreciation of industrial equipment	171	198	(26)	-13%
Depreciation of other assets	220	256	(36)	-14%
Amortisation of intangible assets	521	586	(65)	-11%
Total	**55,985**	**59,976**	**(3,992)**	**-6.66%**

23. FINANCIAL EXPENSES

Financial expenses amounted to Euro 21,735 thousand, up by Euro 797 thousand compared to 2016.

The following table shows a breakdown:

(in thousands of Euro)	12.31.2017	12.31.2016	CHANGES	CHANGES %
Interest expenses and charges on loans	15,015	15,665	(650)	-4%
Financial expenses/income on interest CAP	1,214	0	1,214	n.c.
Interest expenses for decommissioning, post-employment	3,130	2,647	483	18%
Other financial expenses	2,376	2,626	(250)	-10%
Total financial expenses	**21,735**	**20,938**	**797**	**4%**

"Interest expense and charges on loans" relate exclusively to interest and fees accrued on the new loan.

"Financial expenses on Interest CAP" relate to the hedging contract (Interest Rate CAP) on "Term Loan A", described in note no. 6.

"Interest expense for decommissioning", amounting to Euro 2,864 thousand, was mainly offset by the site dismantling and restoration provisions, while the "interest on post-employment and other benefits" recognized in application of IAS 19, stood at Euro 266 thousand.

The item “Other financial charges” refers essentially to the commissions on sureties of Euro 2,312 thousand, as well as the negative exchange differences of Euro 54 thousand.

24. FINANCIAL INCOME

Financial income amounted to Euro 382 thousand, a decrease of Euro 45 thousand compared to December 31, 2016, and refers essentially to interest accrued on VAT credits for which a refund was requested.

The table below shows a breakdown:

(in thousands of Euro)	12.31.2017	12.31.2016	CHANGES	CHANGES %
Interest on receivables due from the tax authorities	369	285	84	30%
Other financial income and interest income	13	142	(129)	-91%
Total financial income	**382**	**427**	**(45)**	**-10%**

“Other financial income” refers mainly to the positive differences relating to the payment of trade payables in dollars.

25. INCOME TAX

Income taxes were determined by a proper and prudent interpretation of current tax legislation at the date of these financial statements and according to the specific methods required by IAS 12.

The detailed breakdown of the estimated taxes for the year, compared with the previous year is shown below:

(in thousands of Euro)	12.31.2017	12.31.2016	CHANGES	CHANGES %
Deferred tax assets	(479)	(1,199)	720	-60%
Deferred tax liabilities	1,104	1,199	(95)	-8%
Total	**625**	**0**	**625**	**n.a.**

Given the company closed 2017 with a tax loss, no current taxes were recorded in the period.

As for the recognition of deferred tax assets and liabilities, please refer to the comments on the respective balance sheet items.

26. EARNINGS PER SHARE

For the calculation of earnings per share, the net profit attributed to shareholders was considered. The denominator used in the calculation is the number of shares issued, in the calculation of both basic and diluted earnings per share, as there are no dilutive effects as at December 31, 2017 or December 31, 2016.

(values in euro)	Period ended 12.31.2017	Period ended 12.31.2016
Net income for the period	(13,463,142)	(58,689,739)
Average number ordinary shares (units)	60,516,142	60,516,142
Earnings per share - basic and diluted	-0.22	-0.97

27. NET FINANCIAL POSITION

The net financial position at December 31, 2017 is detailed as follows:

	Thousands of Euro	as at 12.31.2017	as at 12.31.2016	difference
A	Cash at bank and in hand	25	16	*9*
B	Bank deposits	11,650	53,001	*(41,351)*
C	Securities	-	-	-
D	**Total cash and cash equivalents (A+B+C)**	**11,676**	**53,017**	***(41,341)***
E	**Current financial receivables**	**-**	**-**	**-**
F	Current bank payables			-
G	Current portion of non-current debt			-
H	Other current financial liabilities	(38,482)	(8,106)	*(30,376)*
I	**Total short-term financial liabilities (F+G+H)**	**(38,482)**	**(8,106)**	***(30,376)***
J	**Net current financial position (D+E+I)**	**(26,806)**	**44,911**	***(71,717)***
K	**Non-current financial receivables**	**-**	**-**	**-**
L	Non-current bank payables	(470,520)	(559,337)	*88,817*
M	Other non-current payables	-	-	-
N	**Non-current financial debt (L+M)**	**(470,520)**	**(559,337)**	***88,817***
O	**Net non-current financial position (K+N)**	**(470,520)**	**(559,337)**	***88,817***
P	**OVERALL NET FINANCIAL POSITION (J+O)**	**(497,326)**	**(514,426)**	***17,100***

28. OTHER INFORMATION

Cash flows

Thousands of Euro	Dec-31-17	Dec-31-16	difference
Opening cash and cash equivalents	**53,017**	**68,638**	**(15,621)**
Cash Flow from operating activities	48,989	91,509	(42,520)
Cash Flow from investment activities	(31,889)	(40,833)	8,945
Cash Flow from financing activities	(58,442)	(66,297)	7,855
Closing cash and cash equivalents	**11,676**	**53,017**	**(41,342)**

The cash flow from operations stood at a positive Euro 48,989 thousand, marking a decrease of Euro 42,520 thousand compared to the previous year. Note the collection, in 2017, of VAT credits totaling Euro 61,600 thousand.

The cash flow from operations allowed the coverage of investment activities (Euro 31,889 thousand) as well as a reduction in net financial debt of Euro 17,100 thousand.

The cash flow from financing activities came to a negative Euro 58,442 thousand, and derives primarily from the capitalization of financial expenses in the year net of the repayments made in the period totaling Euro 72,485 thousand.

Cash and cash equivalents amounted to Euro 53,017 thousand at December 31, 2016, a decrease of Euro 41,342 thousand as a result of the aforementioned changes, and amounted to Euro 11,676 thousand at December 31, 2017.

Net financial debt decreased from Euro 514,426 thousand at December 31, 2016 to Euro 497,326 thousand at December 31, 2017.

28.1 Relationships with subsidiaries, affiliates, parent companies and companies controlled by the latter

Any transactions carried out with other related parties, as described below, were carried out under normal market conditions and in the interest of each company:

(thousands of Euro)	Receivables 12/31/2017	Payables 12/31/2017	Costs 12/31/2017	Revenues 12/31/2017
Financial:				
ENGIE ITALIA S.p.A.				
Tax transparency	1,210			
ENERGIA ITALIANA S.p.A.				
Tax transparency	1,141			
Trade:				
Sorgenia S.p.A.				103
Sorgenia Trading Spa	4,811			23,611
Tractebel Engineering Suez		16	16	

Loans to shareholders, amounting to Euro 2,351 thousand, relate to IRES (corporate income tax) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax.

Commercial items due to Sorgenia Trading S.p.A. instead relate to the sales of energy.

28.2 Contingent assets and liabilities

There are no additional contingent assets and liabilities to be highlighted arising from events that occurred during the year 2017, in addition to what has already been reported in the Management Report and in the notes.

With regards to the contingent liabilities arising from the criminal proceedings pending at the Prosecutor's Office of Savona, the preliminary investigations are closed as of today under art. 415 bis c.p.p. (Code of Criminal Procedure) and there are no changes with respect to the update provided in the section of the management report "Operating structure."

Moreover, also taking into account the opinion of the legal advisors assisting the Company, the lack of claims for damages accompanied by disclosure of the demonstration and quantification criteria of the damages caused by the disputed conduct and the uncertainty about the number of potential plaintiffs eventually entitled to appear and that may be accepted by the Court in the criminal proceedings, do not currently make it possible to foresee any consequence for damages deriving from the criminal proceedings in progress.

28.3 Atypical and unusual transactions

There were no atypical or unusual transactions, or outside normal company operations or able to significantly impact the Company's financial position.

28.4 Significant events after the close of the period

Please refer to the relevant section of the Management report.

28.5 Proposed allocation of profit for the year

Please refer to the section "Proposals of the Board of Directors" of the Management report.

Tirreno Power S.p.A.

Financial statements as at December 31, 2017

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

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

To the Shareholders of
Tirreno Power S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tirreno Power S.p.A. (the Company), which comprise the balance sheet as at December 31, 2017, the income statement, the statement of comprehensive income/(loss), the statement of cash flows, the statement of changes in shareholders' equity for the year then ended, and the explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Emphasis of matters

We draw the attention to:

a. the explanatory note "Evolution of the Restructuring Agreement, of the Business Plan and going concern assumption" for the events and results which have affected the fiscal year 2017, the assumptions included in the Business and Financial Plan utilized for the Restructuring Agreement and the Directors' assessments to prepare the financial statements on the basis of the going concern assumption;

b. the paragraph "Operating Structure" of the Management Report and to the explanatory note "Contingent assets and liabilities", which describe the events and the Directors' assessments on the criminal proceeding started by the Prosecutor's Office of Savona, concerning the plant of Vado Ligure.

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

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

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

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Tirreno Power S.p.A. are responsible for the preparation of the Management Report of Tirreno Power S.p.A. as at December 31, 2017, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Management Report, with the financial statements of Tirreno Power S.p.A. as at December 31, 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Management Report is consistent with the financial statements of Tirreno Power S.p.A. as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, March 27, 2018

EY S.p.A.
Signed by: Beatrice Amaturo, partner

This report has been translated into the English language solely for the convenience of international readers.