

SET
Distribuzione

SET Distribuzione SpA

Fully paid-up Share Capital 112,241,777 euro
Via Manzoni 24 – Rovereto
Trento Register of Companies No.
Taxpayer ID and VAT No. 01932800228
Management and coordination by Dolomiti Energia Holding SpA

Financial statements

as at 31 December 2017

BOARD OF DIRECTORS

Chairman	Peroni Agostino
Deputy Chairman	Seraglio Forti Manuela
Directors	Nadalini Giovanna Creazzi Marino Cont Debora Dalmonego Luigi Sartori Michele
Chief Executive Officer	Quaglino Stefano

BOARD OF STATUTORY AUDITORS

Chairman	Bonomi William
Statutory auditors	Angeli Stefano Camanini Cristina
Independent auditors	PricewaterhouseCoopers SpA

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SET
Distribuzione SpA
—
Report on operations

Significant events and business conducted, summary of economic, equity and financial positions

Dear Shareholders,

SET Distribuzione continued to regularly carry out its activities in 2017, and the Company confirmed its traditional policy of continuous improvement in processes and strengthening its leadership position in service efficiency and quality.

At European level, the phase of legislative changes is continuing, with the goal of redesigning tomorrow's electricity markets and further stimulating the development of a competitive market, which culminated in the publication by the European Commission of the "Clean Energy Package" in December 2016. In particular, as regards electricity distributors, the package requires the capacity to facilitate flexibility markets at local level, actively managing network congestion using advanced techniques and demand response mechanisms, and no longer only by making new infrastructure investments. These changes will be implemented into national regulations, and will radically transform the role of the electricity distributor from what we have traditionally been used to considering it to be. Those changes will thus demand your Company's ability to face a phase of structural change, by innovating operational models and integrating new skills in addition to those traditionally available, especially in the field of digital technologies.

With regard to investments, in 2017 the Company continued to support the development, renovation and adjustment of the distribution grids, promoting technological innovation, the efficient use of resources, the optimum management of flows of energy injected into the grids by the distributed generation plants and, more generally, the improvement of grid performance.

As regards revenue, Resolution no. 654 of 28 December 2015 updated the tariffs for grid services applied to end customers, envisaging an

average decrease of around 5%. The decrease in tariffs was mainly due to the significant reduction of operating costs recognised and the decrease in the rate of return of the invested capital (set at 5.6% for electricity distribution and metering services).

In line with the previous regulatory period, SET Distribuzione's tariffs remained correlated exclusively to its number of customers, and thus, are not impacted by possible positive or negative changes in the demand for energy and in power withdrawn by end customers.

The structural effects of the new tariffs were partially offset by even greater attention to the rational use of the resources available along with an improvement in operating efficiency.

In the course of 2017, activities continued for the streamlining of the electricity distribution service in the Province of Trento, which were enacted by entering into and implementing agreements with other local operators. These agreements also had positive effects on the financial statements.

Your Company fully confirms its place among companies of excellence in electricity distribution at national level, as testified by the recognitions that we received again this year, as every year since 2005, from the Italian Regulatory Authority for Energy, Grids and Environment (ARERA) for service quality and continuity.

Lastly, as the term of office of the Board of Directors has come to an end, we would like to take this opportunity to thank you, the Shareholders, for your unwavering trust and support and send our heartfelt thanks to the structures of your Company and the Parent Company Dolomiti Energia Holding which, through their day-to-day commitment and professionalism, have made it possible again in 2017 to achieve the excellent results of SET Distribuzione.

Reference regulatory framework

In 2017, the reference regulations of the electricity distribution system did not undergo any particular changes or significant interventions. Note that EU, national and provincial regulations govern this sector, given the legislative responsibilities assigned to the Autonomous Province of Trento.

At national level, the sector is governed by Italian Legislative Decree no. 79 of 16 March 1999 (the "Bersani Decree"), which implements Directive 96/92/EC, which orders that the distribution companies operating at the date of entry into force of its provisions continue to carry out the service under a monopoly, based on the concession issued by the Ministry, up to 31 December 2030. Subsequently, the services shall be awarded through tender.

At the level of the province, we must firstly note Presidential Decree no. 235 of 26 March 1977, as amended by Italian Legislative Decree no. 463 of 11 November 1999, which sets out implementing rules for the Trentino - Alto Adige Region's independent charter on energy issues, sanctioning the transfer - as of 1 January 2000 - from the State to the Autonomous Provinces of the energy functions carried out both directly and through public institutions of a national or supra-provincial nature. Italian Legislative Decree 463/1999, in particular, establishes that the companies to which the distribution plants of ENEL S.p.A. are transferred, as well as the companies operating at the date of entry into force of the rules, including consortia and cooperatives for generation and distribution, shall exercise or continue the energy distribution activity up to 31 December 2030. A reorganisation of the electrical service by territorial areas is planned, to be defined based on criteria of low cost and rational use of energy, through the approval of the Distribution Plan by way of measure of the Provincial Council with responsibility over that area. The Plan, approved by the Provincial Council on 27 September 2013, assigned Trentino a single area.

Among the other provincial rules, we note, in particular, Provincial Law no. 3 of 20 March 2000, which required the establishment of a company with the local entities for the purpose of taking over

from ENEL in the electricity distribution service (in this case, SET Distribuzione SpA).

This base regulatory framework, substantially unchanged, must, however be supplemented by a set of measures lower in the regulatory hierarchy, but no less valid, binding and operational for sector companies. We specifically refer to the measures adopted by the ARERA in the areas under its responsibility, which also form an integral and substantial part of the reference regulation framework. Here are several recent, important examples.

Tariff regulation for the electricity transmission, distribution and metering service for the regulatory period 2017-2023

With its Resolution no. 654/2015, the Authority, concurrently with the publication of the mandatory grid tariffs to be applied to end customers in 2016, defined the criteria for the new tariff period of the distribution and measurement of electricity, which shall be in force for the following eight years (2016-2023).

The current tariff period was divided in two sub-periods of four years each (NPR1 for 2016-2019 and NPR2 for 2020-2023) with an intermediate revision thus planned in 2020.

With reference to the first sub-period, the Authority substantially confirmed the general regulatory framework with certain changes relating to the method for recognising new investments in the tariff and the useful regulatory life of the assets.

With its Resolution no. 583/2015, the Authority revised the method for determining the rate of return of the invested capital and set a rate of 5.6% for electricity distribution and measurement activities for the 2016-2018 three-year time interval.

The Authority also prescribed the extension, by five years, of the useful life of the assets of the low and medium voltage lines in operation after 31 December 2007.

With reference to the second sub-period, the Authority announced the shift to a tariff regulation based on total costs (so-called "TOTEX Regulation") whose specific aspects are being analysed by your Company in collaboration with the Utilitalia trade association. However, please note that ARERA DCO 683/2017/R/eel consultation document makes it possible to predict a postponement of the adoption of the TOTEX regulation beyond the end of the current regulatory period.

Integrated Text on Metering (TIME)

The "Integrated Text of provisions for the supply of the electricity metering service for the period 2017-2019 (TIME)" was issued by the ARERA with Resolution no. 654/2015.

In the course of 2017, there were no substantial changes in this regulation, while the new elements already expected with regard to responsibilities for the metering service became effective. As of 1 January 2017, the party responsible for metering is required to record said figure with regard to all the points of delivery handled by time band pursuant to the TIS (Integrated Text on Settlement). The purpose of this is to create the conditions for providing domestic customers with the figure of the maximum power delivered monthly on a fifteen-minute basis, already required by Resolution no. 582/2015. As of 1 January 2017, Terna is now responsible for collecting, validating and recording measurements for HV points of delivery and interconnection with the National Transmission Grid ("NTG"). Through Resolution 458/2017/R/eel, the issue of automatic indemnities linked to the quality of measurements (quality of the data – time frame in which it is made available) was attributed to the TIME, updating it to the 1 January 2017 version. Previously, those provisions were contained in the new Grid Code (CADE).

Reform of grid tariffs and tariff components covering the general system charges for domestic electricity customers

Please recall that, with Resolution 782/2016/R/eel, as of 1 January 2017 the Authority started the second phase of the reform of electricity tariffs

for household customers. The aim of the reform is to overcome the progressiveness of the grid tariff and of system costs so as to incentivise efficient consumption characterised by increased withdrawals of electricity (which fully replace other less efficient sources, such as liquid fuels), such as heat pumps for heating, induction cooktops and electric vehicles for personal mobility. The progressiveness of the tariff structure was overcome so as to bring prices more into line with service costs (until this point, residential customers and those with low consumption paid less than the actual cost of the underlying service for their energy supply) and to move beyond the mechanism of crossed subsidies between categories of household customers, based on which residential customers with up to 3 kW of power used and consumption below 3000 kWh were subsidised by other household customers.

The same measure introduced, for a period of 24 months (from 1 April 2017 to 31 March 2019), some temporary facilitations on the connection contributions and fixed contributions borne by the distributor for requests to change power levels. The resolution refers to subsequent measures for the definition of equalisation measures in favour of Distribution companies.

In parallel, to eliminate any tariff increase for customers in economic distress, the Authority revised the amount of the social bonus again for 2017.

Reform of the tariff structure of general system charges for non-domestic users

In essence, the reform is meant to simplify the number of A-UC components of system charges while also multiplying the details of possible user types, which will be equated to the details currently in force for low, medium and high voltage distribution tariffs. The effect of this structural change in system charges will be a gradual shift of these costs from a variable cost structure based on consumption volume to a cost structure closer to a "fixed" type.

This configuration of system charges will have the most impact on users who do not use a good deal of energy, who will see the percentage impact of the cost of system charges rise.

Integrated Text on Sales (TIV)

With its Resolution no. 377/2015, the Authority completed the regulations of the losses on distribution grids, revising the conventional loss percentages starting from 1 January 2017 and the loss equalisation mechanism to be applied to distribution companies starting from the year 2015. In particular, the equalisation mechanism takes into consideration the territorial diversification of losses on distribution grids.

In 2017, the ARERA took action several times to amend and revise the Integrated Text on Sales, which, inter alia, sets the methods whereby distributor enterprises are to recognise (i) the income statement entries relating to the procurement of the electricity used for their own distribution and transmission purposes and (ii) the difference between the actual losses and the standard losses recognised on the distribution grid (so-called "loss delta").

With regard to the second point, the TIV provides a specific equalisation mechanism to regulate the value of the difference between actual losses and standard losses, the latter being defined by applying standard loss factors to the electricity that is supplied and withdrawn. The purpose of this mechanism is to incentivise each distribution company to contain losses. Through this equalisation mechanism, the (positive or negative) difference between actual losses and standard losses, valued at the electricity sale price charged by the Sole Purchaser to operators subject to additional safeguards, shall be allocated to the distribution companies.

Integrated Text on Closed Distribution Systems (TISDC)

With Resolution no. 539/2015 "Integrated Text on Closed Distribution Systems - TISDC", ARERA completed the framework of regulations for connection, metering, transmission, distribution, dispatching and sale services in the case of closed distribution systems (CDS), which include Internal User Grids (RIU). In particular, the document calls for the methods for the provision of these services in the case of CDS to be similar to those in force for public grids, as the CDS operator is considered an

electricity distributor pursuant to directive 2009/72/EC (without prejudice to the exemptions laid out by the same directive and implemented in domestic law). The CDS regulation allows end customers and the producers present in them free access to the electrical system, including the possibility of choosing their vendor irrespective of the decisions made by the system operator. The measure also requires that, just like with the RIU, a register of CDS different from RIU (known as Other CDS or ACDS) be set up at the Authority.

With regard to assigning the responsibility for service quality and the supply of transmission and distribution services, it requires that the distribution companies and Terna be responsible limited to the point of connection between the public grid and the grid of the CDS.

Resolution 582/2017/R/eel postponed the date of application of the TISDC in relation to RIUs from 1 October 2017 to 1 January 2018, essentially to come into line with article 6, paragraph 9 of Law Decree 244/16, which calls for postponing from 1 January 2016 to 1 January 2018 the date of entry into force of the reform of the structure of tariff components of general electrical system charges applied to end customers other than domestic users.

Provision of the electrical infrastructure of SET Distribuzione for the development of ultra-broadband

To incentivise the development of ultra-broadband in marginal areas currently not subject to independent investment by the market (referred to as "white areas" - clusters C and D), the Italian government has set aside specific public funds to be assigned through a public tender.

To reduce the costs of creating the new network, Italian Legislative Decree no. 33/2016 recognises the right to telecommunications operators to access information relating to the existing physical infrastructure for the subsequent use thereof to install a fibre optic network.

Your Company has prepared a document governing the general and technical conditions for access to its electrical infrastructure. This

document, which provides the right of access to the electrical infrastructure subject to acceptance of specific rules and conditions intended to safeguard the efficiency and continuity of the public electricity distribution service and guarantee the prevention of electrical risks and the safety of workers and third parties, calls for:

- a fee in favour of SET Distribuzione for the IRU ("Indefeasible Right of Use"), relating to the right of use that allows for the placement of the fibre optic network on electrical infrastructure;
- fees relating to services carried out by SET Distribuzione for technical, safety and electricity service monitoring reasons.

These fees were accepted by Italian Communications Authority Resolutions no. 88/17/CIR and 162/17/CIR, which settled a dispute lodged by Telecom Italia S.p.A. against E-Distribuzione S.p.A.

Service continuity and quality

In 2017, no significant changes were made to the general regulation in force for the 2016-2023 regulatory period, in which all indicators established previously to measure the continuity of the service provided were confirmed:

- average duration of outages for low voltage users (present since the start of the regulation in 2000);
- average number of long outages (> 3 minutes) as well as short outages (> 1 sec.) for low voltage users.

Moreover, the Authority provided for compensation to individual medium voltage and low voltage users for long-lasting, widespread outages.

Resilience Plan

In the wake of several severe weather events that have taken place in Italy in recent years and which provoked prolonged outages for users, the Authority deemed it necessary to take a new approach to the problem, considering the risk assessment linked to the occurrence of emergency situations and therefore the planning of risk reduction and emergency scenario management strategies. These objectives are achieved by combining two lines of action:

- an increase in grid robustness, by planning a grid with adequate redundancies and designing and selecting components capable of bearing more intense mechanical, electrical and environmental stress;
- a reduction of restoration times following outages, involving adequate organisational structures, procedures and human and technical resources.

From the regulatory perspective, the Authority has approached this topic with the following determinations:

- Art. 77 of the TIQE 2016-2023, which requires distribution companies to prepare a plan to increase the resilience of the electricity distribution system;
- decision 6/2016, which established a roundtable to conduct a detailed study of the resilience of the electricity system;
- DCO 645/2017/R/EEL, which deals with the topic of resilience from the perspective of regulation in a systematic manner, also using the regulatory impact analysis (RIA) method and outlining a roadmap that takes into account expected developments in the business plan and TOTEX.

In line with these initial directives, your Company actively participates in the "resilience technical roundtable" established by the Authority and in March 2017 presented a work plan for boosting resilience focusing primarily on the "falling of tall plants on overhead MV lines" factor, which was the most critical aspect for the electricity grid in the province of Trento.

Centralisation of the process of making metering data available in the Integrated Information System (IIS)

With DCO 377/2017/R/eel, the Authority presented its orientations for making the IIS the single interface for the provision of metering data to distribution companies and dispatch users (vendors) in order to establish a centralised hub within the IIS that can eventually make metering data accessible directly to end customers. As regards the identification of the roles and responsibilities of the parties involved in the process of making metering data available, it is

established that:

- the distribution company, which remains responsible for metering data management activities, will need to record the data, interfacing only with the IIS to provide them to users;
- the IIS will be responsible for certifying the information flows received and will archive the data and make them available to users.

The metering data in question are those relating to all points of delivery (i.e., handled on an hourly and non-hourly basis) and regard:

- periodic metering data and the relative adjustments;
- metering data made available during transfers or switching.

Resolution 594/2017/R/eel provided the initial operating provisions for launching the management of metering data within the IIS and

Functional unbundling

ARERA Resolution 296/2015/R/COM (TIUF)

The year 2017 saw the Company engaged in the execution of the experimental phase of the "self audit" project per AEEGSI Resolution no. 507/2015. In this regard, it should be briefly recalled that the Authority, with this resolution, started an experimental phase, allowing interested companies to submit, on a voluntary basis, a draft strengthened self-auditing form, in order to obtain a reorganisation and rationalisation of the current set-up of the structural functional separation restrictions.

The Dolomiti Energia Group, through the subsidiaries Novareti S.p.A. and Set Distribuzione S.p.A., submitted to the ARERA, in nearly mirror-like form, two distinct draft self-auditing procedures, both accepted by the Authority and being implemented.

This alternative solution, if it is evaluated positively at the end of the experimental phase, should provide companies with the advantage of having the structural and organisational restrictions prescribed by the TIUF markedly reduced.

calls for the experimental testing, verification and inspection phase to begin starting from the provision of the applicable data for October 2017 and for the data made available through the centralised process by the IIS to become official in nature beginning from:

- the data provided in February 2018, with reference to periodic metering and adjustments;
- the metering data relating to transfers requested in January 2018;
- metering data relating to switching starting on 1 February 2018.

This regulation will have a significant operational impact on your Company, especially with a view to the full implementation of second generation smart meters, with the resulting hourly handling of all points of delivery and the exponential growth in metering data to be handled and made available to the IIS.

The adoption of a self-audit procedure (therefore of a reinforced compliance manager) guarantees constant monitoring of conducts which may concretely impair the interests protected by the functional separation regulations and significantly mitigates the regulatory risk to which your Company is exposed.

At its meeting on 27 December 2017, the Authority evaluated the results of the first phase and decided to prolong the experimentation so as to manage, before the final decision on the proposals presented for the experimentation, the transfer of information to the European Commission.

Thus, it is proceeding with a transfer which, although not required and formally not impacting the outcome of the process (the Authority has the power to make the decision on whether to integrate an alternative fulfilment method like the self-audit within the functional separation structure), is at least appropriate, considering the considerable relevance of the matter impacted by the project for the EU.

Aside from the extended period of time over which it was made, this decision appears to be correct and useful for the experimentation participants: otherwise, the initiative with respect to the European Commission would in fact have been adopted subsequent to the final decision, introducing an element of uncertainty which on the other hand should be excluded before that transfer so that, if applicable, operational streamlining decisions can be taken immediately which may derive from the exemptions that will be recognised.

This positioning completes the framework of positive signals progressively accumulated on the consistency and outlooks of the project: the fact that starting from the experimental phase the Authority is informing the European Commission and presenting the project as an alternative method for the configuration of the functional separation restrictions confirms the project's structural validity and its consistency with the general interest, in fact constituting a significant step towards the

implementation of the model within the functional separation regulatory system.

At the same time, the fact that the module to be presented to the European Commission will only be that adopted by your Company, the only one admitted to the experimentation process, entails a substantial attestation of "best practices" for the companies that have adopted it.

With a note from the Infrastructure, Unbundling and Certification Department of 5 February 2018, prot. no. P/2018/3314, your Company was formally notified of the outcome referred to above.

To carry out the self-audit project, your Company relied on the advice and supervision of the Company ILM S.r.l. of Milan, which devised the Project now submitted to the evaluation of the Authorities and the European Commission, which was also appointed as Compliance Manager in accordance with and pursuant to Title IV of the TIUF.

Independent operator's activities for 2017 pursuant to ARERA Resolution 11/07 (TIU) and ARERA Resolution 296/2015/R/COM (TIUF)

The main activities and duties of the Independent Operator were updated with Art. 14, Annex A to ARERA Resolution 296/2015/R/COM (TIUF).

In that regard, the Independent Operator ensured that the activities administered in 2017 were managed according to criteria of efficiency, cost-effectiveness, neutrality and non-discrimination. The Independent Operator was provided with suitable resources to carry out its operations and, in particular, for the obligations of the distribution and metering service as well as to implement the annual investment plan, which was achieved based on its targets and content.

In compliance with what is laid out in Resolution 296/2015/R/com, SET's Independent Operator drew up and sent to the Authority the annual and long-term investment plans for the period 2018-2020, before the Board of Directors approved the 2018 Budget, which occurred on 15 December 2017, without any changes.

Subsequent to the approval of the budget by the Board of Directors, the Independent Operator confirmed the approval with no changes to the Authority on 18 December.

Update on disputes

ARERA Resolution no. 188/2017

With Resolution no. 233/2016/R/EEL of 12 May 2016, ARERA approved the provisional tariffs for the year 2016 for the electricity distribution service provided by operators serving more than 100,000 points of delivery.

The tariff established in this resolution had an unexpected negative effect on your Company which was not identified or explained in the evaluations with which the Authority framed the NPR1 regulation in the consultation documents and in the part describing the relevant general measures.

The cut in operating charges recognised, equal to roughly 9% compared to the previous regulatory period and deemed incorrect and unreasonable by your Company, resulted in the lack of coverage of operating charges actually incurred, with a very severe consolidated impact during the regulatory period if no remedy is provided.

As a result, during the determination of the definitive tariff, it was requested that the decision adopted with respect to SET Distribuzione be reviewed to remove this detrimental effect.

With Resolution 188/2017/R/eel of 24 March 2017, for SET Distribuzione, the final reference tariff was determined for 2016 for the electricity distribution service without the above-mentioned proposal submitted during the joint consultation being accepted. This caused SET Distribuzione to submit a petition for review of the measure to the ARERA Board, with a subsequent note dated 6 April 2017, prot. no. 004963.

This petition was rejected as well, forcing SET Distribuzione to make recourse to the court of

cassation administrative section as the only remaining way to protect its legitimate rights and interests.

With an appeal filed on 22 May 2017, the Company therefore requested the cancellation of Resolution no. 188/2017/R/EEL whereby ARERA set forth the electricity distribution service tariffs for 2016. The hearing on the merits of the case should be held in June 2018.

ARERA Resolution no. 758/2016

With an extraordinary appeal to the President of the Republic, on 13 April 2017 the Company challenged Resolution no. 758/2016 adopted by AEEGSI (now ARERA), requesting the cancellation of the part deemed detrimental, on "Revision of provisions on the company specific equalisation for companies with fewer than 5,000 points of delivery". This matter regards the valuation of assets in cases of combinations between electricity distribution service operators and incompatibility between the new provisions laid out by the Authority with the challenged resolution and SET's obligation, on the basis of provincial regulations, to acquire the plants of selling parties in the Autonomous Province of Trento at appraised value against the recognition, in the tariff, of a lower amount.

Please recall that this matter has been subject to discussion with ARERA out of court for some time now, but the adoption by the Authority of the above-mentioned res. 758/2016 in any case caused the Company to submit an appeal to ensure that the counterparty does not consider our lack of a challenge as acquiescence.

Human resources

As at 31 December 2017, the company workforce was composed of 270 staff. The table below shows the change in the workforce by category:

CATEGORY	2016	HIRINGS	TERMINATIONS	CHANGE IN TITLE		2017
				+	-	
EXECUTIVES	2	-	(1)	-	-	1
MANAGERS	7	1	(1)	-	-	7
EMPLOYEES	161	8	(10)	1	-	160
MANUAL WORKERS	108	1	(6)	-	(1)	102
	278	10	(18)	1	(1)	270

In 2017, 8 injuries were recorded, of which 1 with a prognosis exceeding 40 days. This injury took place while workers were marking underground cables on unconnected land; the injured party stumbled on a partially hidden wooden stake and fell to the ground, hurting his knee and causing an injury to the femoral tendon.

Assessment by the Italian Inland Revenue

In 2008 the Guardia di Finanza (Finance Police) conducted a tax inspection in the company, after which an assessment was conducted by the Italian Inland Revenue. This assessment charged the company with failing to apply registration tax to the acquisition of a business unit for electricity distribution management in the Trentino area from ENEL Distribuzione SpA.

Note that the transfer of the business unit was carried out through the following steps:

- establishment of a newCo (SET Distribuzione srl) by ENEL Distribuzione;
- contribution of the above business unit by ENEL to the newCo established;
- purchase by SET Holding of 100% of the units of the newCo;
- transformation of the newCo from a limited liability company (srl) to a joint-stock company (SpA);
- reverse merger of SET Holding into SET Distribuzione SpA.

In October 2008 SET lodged an appeal against

the assessment, with the First Instance Tax Commission of Trento, which rejected it by sentence of 26 March 2009. Subsequently, in February 2009 the payment order was received in relation to the aforementioned assessment, showing taxes including sanctions, of 8,159 thousand euro. On 29 June 2009 the appointed legal advisor of the Company filed an appeal with the Second Instance Tax Commission of Trento against the first instance decision.

Pending the sentence, the Company agreed with the Trento Tax Authority on settlement of the amount of the payment order (8,566 thousand euro) based on the assessment. For SET, settlement of the payment order is still offering a saving in terms of interest that the tax authority would calculate on the amounts due. The rate of interest applied by the Tax Authority is 8.52% per year, significantly higher than current market interest rates. The payment did not however preclude or affect the option of your Company bringing action before the various tax tribunals at all levels; if the Tax Authority should lose such action it would be

required to reimburse the entire sum, including interest. By sentence of 21 June 2010 the Second Instance Tax Commission also rejected the appeal. Convinced of the correct nature of its operations,

the Company appealed against the decision before the Court of Cassation. For more in-depth accounting details of that event, refer to the notes to the financial statements.

Results of operations

In 2017 operations generated positive income statement results in line with those of the previous year.

In particular, it is noted that:

- the production value came to 98,902 thousand euro, a slight decrease on the 99,786 thousand euro in 2016. The provisional individual tariffs published in spring 2017 by the Authority were used, which are valid for determining eligible revenue for SET Distribuzione for the distribution, sale and metering service;
- the gross operating margin came to 39,643 thousand euro, an increase of almost 2.0% compared to 38,877 thousand euro recorded in 2016. In this regard, it is important to note that some extraordinary components contributed to the result, such as capital gains deriving from the sale (as part of the electricity distribution system restructuring plan for the Trento area) of several assets to Consorzio di Pozza di Fassa and to the company Air di Mezzolombardo;
- considering amortisation/depreciation of 17,961 thousand euro (down by around 55 thousand euro compared to 2016) and financial charges of 4,979 thousand euro (down by around 3 thousand euro compared to 2016) profit before tax of 16,553 thousand euro was achieved, with a positive

difference of 827 thousand euro compared to 2016 (5.3%);

- net profit for the year came to 11,625 thousand euro (compared to 10,696 thousand euro in 2016), an increase on 2016 nearing 8.7%.

Also regarding the financial aspects, 2017 recorded substantial alignment with the previous year: the short-term net financial position (thus, net of the bond loan, which matures in 2029) was a positive 64,771 thousand euro, despite the penalising effect of more than 10 million euro on current assets deriving from receivables for the tariff contribution on Energy Efficiency Certificates and equalisations due to the Company from the Energy and Environmental Services Fund and paid only in part in the early days of January 2018.

The total net financial position of your Company, including the nominal value of the bond loan of 110,000 thousand euro, cash and cash equivalents of 106 thousand euro and the receivable deriving from centralised treasury management of 61,406 thousand euro, therefore amounted to a negative 48,488 thousand euro, and guarantees extremely comforting financial stability indicators (ratio of NFP to EBITDA, in particular).

Key economic and financial result indicators

ECONOMIC INDICATORS

INDEX	FORMULA	2017	2016	DIFFERENCE
PRODUCTION VALUE	PRODUCTION VALUE	98,902	99,786	(884)
EBITDA	GROSS OPERATING MARGIN (THOUSANDS OF EURO)	39,643	38,877	766
EBIT	NET OPERATING MARGIN (THOUSANDS OF EURO)	21,532	20,709	823
PROFIT (LOSS) FOR THE YEAR	PROFIT (LOSS) FOR THE YEAR	11,625	10,696	929
ROE	NET PROFIT/EQUITY	7.5%	7.1%	0.4%
ROI	EBIT/INVESTED CAPITAL	5.1%	5.0%	0.1%
ROS	EBIT/TURNOVER	28.4%	27.3%	1.1%

The economic indicators were slightly better than the previous year.

FINANCIAL AND EQUITY INDICATORS

INDEX	FORMULA	2017	2016	DIFFERENCE
NFP	NET DEBT	(48,488)	(44,752)	(3,746)
HEDGING OF FIXED NET ASSETS	EQUITY+MEDIUM/LONG-TERM LIABILITIES/ FIXED NET ASSETS	1.15	1.12	0.03
DEBT RATIO	LIABILITIES/EQUITY	1.56	1.59	(0.03)
DEGREE OF AMORTISATION	AMORTISATION PROVISION/GROSS FIXED ASSETS	0.59	0.58	0.01
SECONDARY LIQUIDITY RATIO	SHORT-TERM ASSETS/SHORT-TERM LIABILITIES	1.56	1.43	0.13

The financial and equity indicators are in line with values from the previous year.

Service quality and continuity

Again, for the year 2017, SET Distribuzione guaranteed a further improvement in the service quality and continuity levels offered in the supply of electricity to users. For several years the ARERA has established an adequate level of technical and commercial quality, through a set of indicators which electricity distribution companies must guarantee to their active and passive users. If said parameters, which are accurately verified by the Authority based on the information that companies are required to provide, are not met, a penalty is envisaged for non-performing companies or compensation to users.

The results regarding 2016, published with ARERA Resolution 793/2017/R/eel, show that SET Distribuzione is the best company in the electricity distribution sector after the largest national distributor, which enabled your Company to obtain, as a recognition for its excellent results achieved, a bonus of 1.58 million euro which is the second in both absolute value and the highest in relative value per user. In detail, in each of the areas of responsibility (high, medium and low concentration of users), the average duration of outages in 2016 was better than the targets that the Authority assigned SET Distribuzione based on the best service quality standards requested at national level

(high concentration: standard - 28 minutes, result - 7.65 minutes; medium concentration: standard - 45 minutes, result 13.82 minutes; low concentration: standard - 68 minutes, result - 24.16 minutes).

Also with regard to the number of outages, the results were better than the standards in each of the areas (high concentration: standard 1.2 - result 0.56; medium concentration: standard 2.25 - result 0.95; low concentration: standard 4.30 - result 1.64).

As regards 2017, the data concerning service continuity confirmed the positive trend of the previous years for all areas, with all six reference indicators performing better than the standards set by the ARERA and further improving on 2016.

As regards commercial quality, in 2017, Set Distribuzione maintained the previous years' positive results in compliance with the standards set by the Authority for the execution times for the various services (cost estimates and simple works on the LV grid, activation and deactivation of metering units, replacements of defective metering units, etc.). Compensation was paid to 59 users out of a total of 33,780 services executed at the specific level of Commercial Quality, thus, compliant with timeframes in 99.8% of cases.

Investments

In addition to the works on the MV and LV grids to fulfil the connection requests from passive users (which were in line with 2016), during 2017 activities continued for the purpose of connecting to the grid photovoltaic plants (around 400) and other plants with hydroelectric generation, for total power of around 7 MVA, down on the performance of the last few years.

On the other hand, there was significant growth in requests for connections of storage plants associated with plants generating energy from renewable sources, primarily photovoltaic

(roughly 100 cases compared to 35 in 2016 and 5 in 2015).

Conversely, as regards works on SET Distribuzione's initiative relating to expanding the grids, improving service and adjusting plants to legal regulations, the volume of activities was up compared to the already significant values reached in previous years, amounting to around 6.7 million euro.

These are highly profitable works, mainly on primary stations, MV grids and secondary stations (those characterised by high returns in terms of improving

the quality of service), implemented based on a plan that identified these works in great detail.

With respect to the primary stations, some of the most significant activities were the upgrading of the high voltage part of the Caldonazzo primary station, the acquisition of land for the construction of the new Rovereto Nord primary station and the completion of the plan for the replacement of high-voltage oil switches.

On the medium voltage grid, the main investments realised by your Company in 2017 can be summarised as follows:

- works for laying new underground MV cables to guarantee a second energy supply to several districts in the Municipalities of Borgo Valsugana, Fai della Paganella, Pieve Tesino, Val di Concei in the municipality of Ledro and Lases;
- works for the construction of new underground MV lines to replace the overhead lines with bare conductors between the districts of Folgarida and Campo Carlo Magno, between the districts of Cronaccia di Fondo and Tret, between the districts of Varena and Passo del Lavazè, between the districts of S. Antonio di Mavignola and Paluaccio (M. di Campiglio) and between the districts of Fontanedo and Lardaro in Val del Chiese;

IT systems

Under the service agreement in force, the parent company Dolomiti Energia Holding develops and makes available to Set Distribuzione all the IT infrastructure and systems required for company operations and to suitably fulfil the obligations required by the Authority.

As regards applications, which have been covered by the service agreement with the Parent Company for some time, it is noted that the system of remote management of electronic meters (named "TMM"), developed by Dolomiti Energia Holding is available in its now definitive version, both to SET Distribuzione and to a further ten distributors in the Province of Trento.

Also note that the SIR (Grid IT System) system was

- works to replace bare conductors with insulated overhead cable, for a total of 20 km of MV lines, in wooded areas located in mountain districts in the Province: these works resulted in a significant improvement in the resilience of the distribution grid under highly difficult weather conditions during snowfall or on very windy days when tall plants fall on cables;
- preparation of new MV lines in view of the activation of the new Rovereto Nord primary station expected to take place in early 2019;
- requalification works on numerous obsolete secondary stations with open outfitting, with protected switchboards, either motorised or equipped with switches, to improve service continuity and the selectivity of faults on the medium voltage grid and to enable remote control by the Trento Integrated Remote Control Centre.

It is important to note that your Company's technical structures have drawn up a long-term plan of the need for investment in the grid. Through targeted works that have already been identified in detail, this plan covers a time horizon up to 2020 and forms the reference foundation for the communications envisaged by the Authority in the Integrated Text on unbundling.

developed specifically to manage the grids of the Dolomiti Energia Group and acts as the centre of gravity for the main company flows, specifically between the commercial management area, the remote manager TMM and the remote control of the grids, incorporating the distribution data structures and work processes and unifying all the IT management logics of technical data.

The functions made available through SIR which are of interest to the Company include the M-SIR (Mobile SIR) project, concerning the system that makes it possible to distribute the technical and plant information managed in the SIR on mobile devices, for technicians as well as operating teams, ensuring that they can view and search for plant data online as well as offline, the simulation of

medium and low voltage electrical grids and control of periodic summary data regarding service quality, in compliance with the principles promoted by the ARERA resolutions, in addition to other applications to improve, monitor and automate several company operating processes.

In continuity with previous years, IT development activities mainly regarded initiatives to develop Systems to adapt them to the sector regulatory context and, as a second step, development and corrective activities.

In more detail, it is worth highlighting the main works carried out in the regulatory realm, in response to Authority resolutions, in areas such as communication standards and IIS process management, the new Grid Code for Electricity and Transmission invoicing, switches during the month,

Remote management systems

In the course of 2017, through the remote electricity meter management system, roughly 3.2 million readings were successfully conducted remotely, in addition to around 34,000 user management operations (new contract activations, deactivations, transfers, power changes) and around 10,000 operations linked to the management of customers with late payments.

Initial testing was carried out on second generation (2G) low voltage electronic meter models and actions for the adjustment of the current remote management system to the new meters were identified to guarantee a secure transition to the new models when stocks of 1G meters which are no longer available in the market are used up.

With reference to the service of measurement of natural gas provided to Novareti, remote reading to class >G16 meters was consolidated, with the

new power brackets and new approaches for calculating Guarantees.

It is also worth mentioning the pilot project on the multi-service field infrastructure for the remote management of gas and electricity meters.

On the other hand, in terms of infrastructure, in 2017 SET was able to take advantage of the group's new hardware and disaster recovery infrastructure, with the introduction of new high-performance storage for SAP application areas.

Lastly, as regards Remote Control (TC), the topic of IT and operational security was addressed along with the personnel of SET Distribuzione, making connectivity with the TC centre more robust and starting to redesign the TC network architectural model.

activities to manage and make available the daily withdrawal data for approximately 5,000 redelivery points that provide for this treatment.

Another important result to be pointed out in the gas sector is the full achievement of the remote reading objective for 15% of mass market utilities (class G4-G6), imposed by the regulation, through a remote management system based on point-multipoint technique via radio at 169 MHz, which is particularly interesting because it exploits a major part of the telecommunication infrastructure already in operation for the remote management of electricity.

In 2017, moreover, work continued on the challenging implementation of data flows towards Integrated Information System (IIS) of the Sole Purchaser, intended to be the linchpin of the information flows between participants in the markets of electricity and gas.

Research and development

In 2017, activities with high innovation content continued, on one hand with the reservation of strategic relationships and on the other with the implementation of real solutions in support of corporate processes, of the operation and advanced management of the grid of the near future, also in compliance with the indications of ARERA.

In the course of 2017, your Company participated in the European STARDUST project (Horizon 2020).

In the vein of initiatives for the transition to Smart Cities, the objective of the STARDUST project is to pave the way for the transformation of cities primarily using fossil fuels into highly efficient and smart cities focused on residents, by developing sustainable technical solutions that can be rapidly launched in the market.

Stardust acts as a "smart" connector between 6 European cities, the main cities being Pamplona (ES), Tampere (FI) and Trento (IT) and the

associated cities being Derry (UK), Kozani (GR) and Litomerice (CZ).

These six cities, in collaboration with skilled industrial partners, including a variety of innovative local SMEs, and also supported by the world of academics and research, will implement smart integration solutions and test and validate innovative technical solutions and business models as a source of inspiration for projects to be replicated throughout Europe and even beyond.

Developments are continuing relating to the WFM project, which in previous years entailed the delivery to all technical personnel of mobile IT instruments on which appropriate applications are installed for the digitalisation and optimisation of work processes.

Personnel continued in their commitment to guarantee participation in technical committees and strategic work groups, both in Italy and Europe.

Risk analysis – Corporate objectives and policies on risk management

Credit risk

The Company's clients are mainly electricity wholesalers and, among these, the largest is the associated company Dolomiti Energia S.p.A.

Credit is monitored constantly during the year to ensure that the total always expresses its estimated realisable value.

Liquidity risk

The main liquidity risk that the company is exposed to is the potential difficulty of promptly obtaining

funds to support its normal business activities. To ensure that the Company has the necessary financial means for carrying out ordinary business, it has stipulated a service agreement for finance management with the parent company Dolomiti Energia Holding, which makes provision for treasury management under a "cash pooling" arrangement and surety management activities. The Company's financial position is constantly monitored by the specifically-assigned office and does not exhibit any problems. The financial position includes a bullet, fixed-rate bond loan with a nominal value of 110 million euro, maturing in 2029, issued on acquiring the electricity distribution business unit from ENEL Distribuzione SpA.

Market risk

The Company exclusively operates on the national market and is thus not exposed to floating currency exchange rates. The tariffs determining the consideration for electricity distribution are instead decided by the ARERA and are therefore

unlikely to change except in regulatory terms. The risk of fluctuations in interest rates is limited, as financial exposure is represented by the fixed-rate bond loan mentioned above, with duration until the concession ends. Changes in interest rates could influence the index-linked floating rate short-term deposit.

Relations with the Parent Company and shareholders

Economic relations with the Parent Company Dolomiti Energia Holding and the companies within the same Group are governed by several service agreements which, during the year, made provision for equal remuneration for the services performed for SET Distribuzione or by the Company for Group companies. SET Distribuzione's decision not to set up its own operational structure to manage the various technical-administrative activities resulted in significant management economies.

The activities carried out for SET Distribuzione mainly regard administrative-management activities, and specifically refer to general services (premises, logistics, cleaning, security, etc.), the outsourced set up and provision of IT systems

(regarding the components of hardware, software and communications and network infrastructure), administration in the strict sense, personnel administration and procurement of products and services.

A cash pooling agreement is also in place with Dolomiti Energia Holding which is used to implement the cash pooling service. SET Distribuzione also participates in the national tax consolidation regime and Group VAT with its direct parent company Dolomiti Energia Holding.

The profit and loss items relating to those relationships are illustrated in detail in the notes to the financial statements.

Relations with Dolomiti Energia Group companies

The tables below summarise the economic and financial relations with the companies in the Dolomiti Energia Group.

THOUSANDS OF EURO	TRADE RECEIVABLES	FINANCIAL RECEIVABLES	TRADE PAYABLES	FINANCIAL PAYABLES
DOLOMITI ENERGIA HOLDING SPA	145	64,469	849	3,318
DTC SCARL	1	-	-	-
DOLOMITI ENERGIA SPA	19,941	-	29,209	-
DOLOMITI ENERGIA RINNOVABILI SRL	56	-	76	-
NOVARETI SPA	342	-	389	-
HYDRO DOLOMITI ENERGIA SRL	(10)	-	61	-
DOLOMITI ENERGIA TRADING SRL	-	-	9,634	-
DOLOMITI GNL SRL	6	-	-	-
DOLOMITI AMBIENTE SRL	-	-	15	-
TOTAL	20,481	64,469	40,233	3,318

THOUSANDS OF EURO	REVENUE			PURCHASES			FINANCIAL INCOME	FINANCIAL CHARGES
	GOODS	SERVICES	OTHER	GOODS	SERVICES	OTHER		
DOLOMITI ENERGIA HOLDING SPA	-	441	-	278	3,578	192	50	-
DTC SCARL	-	2	-	-	-	-	-	-
DOLOMITI ENERGIA SPA	-	50,426	-	-	112	88	-	-
DOLOMITI ENERGIA RINNOVABILI SRL	-	54	-	-	140	-	-	-
NOVARETI SPA	-	1,404	-	-	170	345	-	-
HYDRO DOLOMITI ENEL SRL	-	35	-	-	-	64	-	-
DOLOMITI ENERGIA TRADING SRL	-	-	-	6,027	-	-	-	-
DOLOMITI GNL SRL	-	6	-	-	-	-	-	-
DOLOMITI AMBIENTE SRL	-	-	-	-	50	-	-	-
TOTAL	-	52,368	-	6,305	4,050	689	50	-

Treasury shares

As at 31 December 2017, SET Distribuzione SpA did not hold treasury shares, nor did it carry out directly, indirectly through subsidiaries or associates, through trust companies or third parties, purchases or sales of such shares in 2017. As at 31 December 2017, the subsidiaries, associates and related parties did not

hold shares of SET Distribuzione, nor did they carry out purchases or sales of such shares in 2017.

During the year, no shares with dividend entitlement, bonds convertible in shares or other securities or similar instruments were issued.

Business outlook

In 2018 no significant changes are expected in the company performance as compared to 2017.

In any event, the parent company structures that oversee tariff issues are taking action to obtain definitive distribution tariffs to correct those which, in our opinion, are material errors carried

out in determining the provisional tariffs currently used. As already highlighted previously, your Company made recourse to the Administrative Court to have its claims recognised, but it is also maintaining an open dialogue with ARERA to come to an out-of-court solution that is satisfactory for both parties.

Rovereto, 9 March 2018

SET Distribuzione SpA
The Chairman
Agostino Peroni



SET
Distribuzione SpA
—
Financial statements 2017

Balance sheet - assets

	31/12/2017	31/12/2016
A) SUBSCRIBED CAPITAL UNPAID	-	-
B) FIXED ASSETS		
I) INTANGIBLE ASSETS		
2) DEVELOPMENT COSTS	6,145	7,560
3) INDUSTRIAL PATENTS AND INTELLECTUAL PROPERTY RIGHTS	60,660	80,880
5) GOODWILL	24,712,003	26,612,926
7) OTHER INTANGIBLE ASSETS	192,752	226,981
TOTAL	24,971,560	26,928,347
II) PROPERTY, PLANT AND EQUIPMENT		
1) LAND AND BUILDINGS	22,437,718	22,243,406
2) PLANTS AND EQUIPMENT	226,296,230	225,841,084
3) INDUSTRIAL AND COMMERCIAL FITTINGS	16,422,441	17,841,042
4) OTHER ASSETS	672,685	648,809
5) WORK IN PROGRESS AND ADVANCE PAYMENTS	5,000	5,000
TOTAL	265,834,074	266,579,341
III) FINANCIAL FIXED ASSETS		
2) ACCOUNTS RECEIVABLE WHICH ARE FIXED ASSETS		
D-BIS) OTHERS	55,266	45,582
TOTAL	55,266	45,582
TOTAL FIXED ASSETS	290,860,900	293,553,270
C) CURRENT ASSETS		
I) INVENTORIES		
1) RAW MATERIALS AND CONSUMABLES	3,257,175	2,783,664
TOTAL	3,257,175	2,783,664
II) ACCOUNTS RECEIVABLE OF THE CURRENT ASSETS		
1) ACCOUNTS RECEIVABLE - CUSTOMERS	8,810,911	8,571,391
4) ACCOUNTS RECEIVABLE - PARENT COMPANIES	3,195,152	3,187,770
5) ACCT. REC. - COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES	20,336,710	21,608,610
5) BIS TAX CREDITS	41,416	520,269
5) TER PREPAID TAXES	8,274,070	7,758,351
5) QUATER ACCOUNTS RECEIVABLE - OTHERS	27,740,239	14,512,289
TOTAL	68,398,498	56,158,680
III) SHORT-TERM INVESTMENTS		
7) FINANCIAL ASSETS FOR CENTRALISED TREASURY MANAGEMENT		
C) PARENT COMPANIES	61,419,054	65,180,392
TOTAL	61,419,054	65,180,392
IV) CASH AND CASH EQUIVALENTS		
1) BANK AND POSTAL CURRENT ACCOUNTS	105,578	79,124
3) CASH ON HAND	865	1,310
TOTAL	106,443	80,434
TOTAL CURRENT ASSETS	133,181,170	124,203,170
D) ACCRUALS AND DEFERRALS		
PREPAYMENTS	53,498	57,297
TOTAL PREPAYMENTS AND ACCRUED INCOME	53,498	57,297
TOTAL ASSETS	424,095,568	417,813,737

Balance sheet - liabilities and shareholders' equity

	31/12/2017	31/12/2016
A) SHAREHOLDERS' EQUITY		
I) SHARE CAPITAL	112,241,777	112,241,777
II) SHARE PREMIUM RESERVE	2,517,012	2,517,012
IV) LEGAL RESERVE	3,566,899	3,032,091
VI) OTHER RESERVES		
- EXTRAORDINARY RESERVE	35,975,488	32,548,653
- ROUNDING RESERVE	-	1
VIII) RETAINED EARNINGS OR LOSSES	26,485	26,485
IX) PROFIT OR LOSS FOR THE YEAR	11,625,032	10,696,150
TOTAL SHAREHOLDERS' EQUITY	165,952,693	161,062,169
B) PROVISION FOR RISKS AND CHARGES		
2) PROVISION FOR INCOME TAXES (INCLUDING DEFERRED TAXES)	2,740,973	2,891,206
TOTAL	2,740,973	2,891,206
C) EMPLOYEE TERMINATION BENEFITS	3,313,163	3,605,828
D) ACCOUNTS PAYABLE		
1) BONDS		
- WITHIN 12 MONTHS	2,107,180	2,102,373
- AFTER 12 MONTHS	109,842,184	109,833,947
4) ACCOUNTS PAYABLE - BANKS	-	710
7) TRADE PAYABLES	32,740,369	33,104,366
11) ACCOUNTS PAYABLE - PARENT COMPANIES	4,166,828	2,290,042
11) BIS ACCT. PAY. - COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES		
- WITHIN 12 MONTHS	10,204,477	10,989,219
- AFTER 12 MONTHS	29,179,700	29,179,700
12) TAX PAYABLES	463,249	326,504
13) SOCIAL SECURITY PAYABLES	815,267	760,365
14) OTHER ACCOUNTS PAYABLE		
- WITHIN 12 MONTHS	1,688,408	2,175,847
- AFTER 12 MONTHS	921,440	287,689
TOTAL	192,129,102	191,050,762
E) ACCRUED LIABILITIES AND DEFERRED INCOME		
ACCRUED LIABILITIES	48,020	47,706
DEFERRED INCOME	59,911,617	59,156,066
TOTAL	59,959,637	59,203,772
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	424,095,568	417,813,737

Income statement

	31/12/2017	31/12/2016
A) PRODUCTION VALUE		
1) REVENUE FROM SALES AND SERVICES	75,712,489	75,742,341
4) INCREASES IN FIXED ASSETS FOR IN-HOUSE PROJECTS	6,087,242	6,099,951
5) OTHER REVENUE AND INCOME		
OTHER REVENUE	17,058,015	16,932,102
PLANT-RELATED GRANTS AND PORTION OF OPERATING GRANTS	44,434	1,011,526
TOTAL PRODUCTION VALUE	98,902,180	99,785,920
B) PRODUCTION COSTS		
6) FOR RAW MATERIALS, CONSUMABLES AND MERCHANDISE	(4,505,158)	(3,720,469)
7) FOR SERVICES	(25,878,788)	(25,730,118)
8) COSTS FOR USE OF THIRD PARTY ASSETS	(2,510,987)	(2,083,900)
9) PERSONNEL COSTS		
A) WAGES AND SALARIES	(11,676,941)	(11,919,580)
B) SOCIAL SECURITY COSTS	(3,608,187)	(3,724,939)
C) EMPLOYEE TERMINATION BENEFITS	(799,288)	(809,083)
E) OTHER COSTS	(934,869)	(912,083)
10) AMORTISATION, DEPRECIATION AND WRITE-DOWNS		
A) AMORTISATION OF INTANGIBLE ASSETS	(1,965,988)	(1,963,021)
B) DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	(15,995,211)	(16,053,355)
D) WRITE-DOWN OF ACCOUNTS RECEIVABLE RECOGNISED TO CURRENT ASSETS	(149,397)	(150,802)
11) CHANGE IN INVENTORIES OF RAW MATERIALS, CONSUMABLES AND MERCHANDISE	473,511	(56,673)
14) OTHER OPERATING COSTS	(9,818,594)	(11,952,572)
TOTAL PRODUCTION COSTS	(77,369,897)	(79,076,595)
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	21,532,283	20,709,325
C) FINANCIAL INCOME AND CHARGES		
16) OTHER FINANCIAL INCOME		
D) FINANCIAL INCOME DIFFERENT FROM ABOVE		
PARENT COMPANIES	50,000	50,000
OTHER	37,845	64,096
17) INTEREST AND OTHER FINANCIAL CHARGES		
D) OTHER	(5,067,264)	(5,097,242)
TOTAL FINANCIAL INCOME AND CHARGES	(4,979,419)	(4,983,146)
D) VALUE ADJUSTMENTS OF INVESTMENTS AND FINANCIAL LIABILITIES		
18) REVALUATIONS	-	-
19) WRITE-DOWNS	-	-
TOTAL VALUE ADJUSTMENTS OF INVESTMENTS AND FINANCIAL LIABILITIES	-	-
PROFIT BEFORE TAX	16,552,864	15,726,179
20) INCOME TAXES FOR THE YEAR		
- CURRENT TAXES	(5,484,786)	(5,671,360)
- TAXES RELATING TO PREVIOUS YEARS	(151,999)	146,637
- DEFERRED AND PREPAID TAXES	708,953	494,694
21) PROFIT (LOSS) FOR THE YEAR	11,625,032	10,696,150

Cash Flow Statement

(IN THOUSANDS OF EURO)	31/12/2017	31/12/2016
A. CASH FLOW FROM OPERATIONS		
PROFIT (+) / LOSS (-) FOR THE YEAR	11,625	10,696
INCOME TAXES	4,928	5,030
INTEREST INCOME FOR THE PERIOD (-)	(88)	(114)
INTEREST EXPENSE FOR THE PERIOD (+)	5,067	5,097
CAPITAL GAINS/LOSSES (-/+) DERIVING FROM THE SALE OF ASSETS	(1,621)	48
1. PROFIT/LOSS FOR THE YEAR BEFORE INCOME TAXES, INTEREST, DIVIDENDS AND CAPITAL GAINS/LOSSES FROM SALE	19,911	20,757
ALLOCATIONS/ABSORPTIONS - PROVISIONS FOR OTHER RISKS AND CHARGES	331	132
DEPRECIATION OF FIXED ASSETS	17,961	18,016
TOTAL ADJUSTMENTS FOR NON-MONETARY ELEMENTS	18,292	18,148
2. CASH FLOWS BEFORE CHANGES IN NWC	38,203	38,905
DECREASE (+) / INCREASE (-) IN INVENTORIES	(474)	57
DECREASE (+) / INCREASE (-) IN TRADE RECEIVABLES	(240)	682
INCREASE (+) / DECREASE (-) IN TRADE PAYABLES	(364)	(8,631)
DECREASE (+) / INCREASE (-) IN PREPAYMENTS AND ACCRUED INCOME	4	12
INCREASE (+) / DECREASE (-) IN ACCRUED LIABILITIES AND DEFERRED INCOME	756	400
OTHER CHANGES IN NET WORKING CAPITAL	(12,359)	20,971
TOTAL CHANGES IN NET WORKING CAPITAL	(12,677)	13,491
3. CASH FLOW AFTER CHANGES IN NWC	25,526	52,396
INTEREST COLLECTED (+)	94	114
INTEREST PAID (-)	(5,054)	(5,085)
INCOME TAXES PAID (-)	(3,337)	(3,492)
USAGE OF PROVISIONS	(581)	(388)
TOTAL OTHER ADJUSTMENTS	(8,878)	(8,851)
CASH FLOW FROM OPERATIONS (A)	16,648	43,545
B. CASH FLOW FROM INVESTING ACTIVITIES		
PROPERTY, PLANT AND EQUIPMENT / INVESTMENTS (-)	(16,769)	(15,650)
PROPERTY, PLANT AND EQUIPMENT / DIVESTMENTS (+)	141	53
INTANGIBLE ASSETS / INVESTMENTS (-)	(9)	(132)
FINANCIAL FIXED ASSETS / INVESTMENTS (-)	(10)	(7)
INCREASE (-) / DECREASE (+) IN RECEIVABLES FROM CASH POOLING	3,761	(21,016)
DISPOSAL OF BUSINESS UNITS NET OF CASH AND CASH EQUIVALENTS (+)	2,999	-
CASH FLOW FROM INVESTING ACTIVITIES (B)	(9,887)	(36,752)
C. CASH FLOW FROM FINANCING ACTIVITIES		
LIABILITIES / DIVIDENDS PAID	(6,735)	(6,735)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(6,735)	(6,735)
INCREASE (+) DECREASE (-) IN CASH AND CASH EQUIVALENTS (A+B+C)	26	58
FOREIGN EXCHANGE EFFECT ON CASH AND CASH EQUIVALENTS	-	-
OPENING CASH AND CASH EQUIVALENTS	80	22
CLOSING CASH AND CASH EQUIVALENTS	106	80

The centralised treasury agreement in place with the Parent Company requires financial requirements to be centralised at the pooler company (Dolomiti Energia Holding), which operates through the transfer of the credit and debit balances of SET Distribuzione's current accounts. Therefore, due to the cash pooling, the Company's cash and cash equivalents at the end of the day are always zero, since they are transferred to the Parent Company, which, in turn, supports the Company's financial requirements, in the event its financial resources are insufficient.

These financial statements are true, actual and conform to the accounting records.

Rovereto, 9 March 2018

SET Distribuzione SpA
The Chairman
Agostino Peroni

Notes to the financial statements

Preparation criteria

The financial statements for the year ended as at 31 December 2017 and these Notes to the Financial Statements were prepared on the basis of the provisions set forth in Articles 2423 et seq. of the Italian Civil Code, supplemented by the accounting standards issued by the Italian Accounting Standard Authority (OIC).

The financial statements are composed of the following documents:

- Balance sheet;
- Income statement;
- Cash Flow Statement;
- Notes to the financial statements.

These Notes to the financial statements aim to illustrate, analyse and, in certain cases, supplement the financial statements data, and contain the information requested by Art. 2427 of the Italian Civil Code, which are in line with the regulatory amendments introduced by Italian Legislative Decree 139/15 and with the accounting standards recommended by the Italian Accounting Standard Authority (OIC).

These financial statements are stated in euro. Furthermore:

- a) the valuation criteria are those set forth in Article 2426 of the Italian Civil Code; exceptional cases which would make it necessary to not apply the valuation criteria set forth, since incompatible with the "true and fair view" of the equity and financial situation as well as the economic result of the Company, pursuant to Article 2423, 4th paragraph, were not identified;
 - b) the items of the Balance Sheet and the Income Statement were not grouped;
 - c) there are no asset and liability items that fall under more than one item in the statement.
- Reference should be made to the Report on operations regarding:
- a) nature of the activity performed;
 - b) business outlook;
 - c) relations with parent companies, subsidiaries, associates and companies subject to common control of the parent company.

Compared to last year, please note that all

contingent assets were classified under item A5) Other revenue and income rather than by nature, as in the previous year. The economic data for the year 2016, presented for comparative purposes, have been adjusted accordingly; these reclassifications resulted in the recognition of a higher production value for 2016 equal to 263 thousand euro and as a result higher production costs in the same amount. The difference between production value and costs is therefore unchanged.

Principles applied in the valuation of financial statement items

The items were measured on the basis of the going concern assumption; the principles of prudence and accrual accounting were applied, also by taking into account the substance of the transaction or of the contract.

The application of the principle of prudence entailed individually measuring the elements making up the individual asset and liability entries or items, in order to avoid offsetting items that should be recognised and profits that should not be recognised because not realised. In compliance with the accrual principle, the effect of transactions and other events was stated for accounting purposes and attributed to the year to which those transactions and events refer, and not to that in which the relative cash movements actually take place (collections and payments). The measurement criteria adopted in preparing the financial statements are described below.

INTANGIBLE ASSETS

Intangible assets, characterised by a lack of tangibility, are represented by costs which do not terminate their utility in the period they are incurred, but rather manifest economic benefits over several years. They are stated at the purchase cost effectively incurred inclusive of related charges, and/or at production cost if created internally, which includes all the costs directly attributable and also the portion of the indirect costs reasonably attributable to the asset.

They are stated net of the portions of amortisation, calculated systematically on a straight-line basis in relation to their residual useful life.

In the event of impairment, regardless of the depreciation already accounted for, the asset is correspondingly written down; if the assumptions on which the write-down is based are no longer valid in subsequent years, the original value is written back, only adjusted by depreciation. Development costs (amortised over 3 years) are recognised under the balance sheet assets with the consent of the Board of Statutory Auditors. Goodwill was posted following extraordinary transactions relating to the acquisition of business units. According to the provisions of Art. 2426 of the Italian Civil Code, as amended by Legislative Decree 139/2015, goodwill is amortised on the basis of its useful life and, in any case, over a period not exceeding 20 years. In exceptional cases in which it is not possible to reliably estimate its useful life, it is amortised over a maximum period of 10 years. As regards goodwill that arose prior to 1 January 2016, the Company made use of the option to continue with the previous amortisation plan, pursuant to the provisions of Art. 12, paragraph 2 of Italian Legislative Decree 139/2015.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include assets held for long-term use whose economic utility extends beyond the limits of one year, acquired from third parties or produced internally. The cost effectively incurred for the acquisition of the asset also includes the related costs, incurred so that the fixed assets can be used. The production costs include all the costs directly attributable to the asset (typically materials and direct labour) and the portion of other general production costs reasonably attributable to the fixed asset. There were assets subject to revaluation pursuant to Law no. 266 of 23 December 2005.

They are stated net of the portions of depreciation, calculated systematically on a straight-line basis in relation to their residual useful life. The depreciation period begins from the year in which the asset is available and ready for use, and for assets acquired during the year the rate is halved, to take into account the decreased use. In particular, depreciation is mainly

calculated according to the rates shown below:

• primary and secondary substations, satellite centres, transformers, LV/MV grids, connections	2.9%
• electronic metering units	6.7%
• furniture and office machines	5.6%
• electronic office machines	16.7%
• motor vehicles	12.5%

In the event of impairment, regardless of the depreciation already accounted for, the asset is correspondingly written down; if the assumptions on which the write-down is based are no longer valid in subsequent years, the original value is written back, only adjusted by depreciation.

Extraordinary maintenance charges increase the book value of the fixed assets to which they refer, since they increase the production capacity or the useful life attributable to the existing asset; ordinary maintenance charges are booked to the income statement.

No financial charges relating to loans possibly obtained for the construction and manufacture of assets, have been capitalised.

ACCOUNTS RECEIVABLE

Accounts receivable are booked to the financial statements according to the amortised cost method, taking into consideration the time factor, and the presumed realisable value. In particular, the initial book value is represented by the nominal value of the account receivable, net of all premiums, discounts and allowances, and inclusive of any costs directly attributable to the transaction that generated the receivable. Transaction costs, any commission income and expense, and any difference between the initial value and the nominal value at maturity are included in the calculation of the amortised cost, using the effective interest rate method. The amortised cost method is not applied to those accounts receivable for which its application would entail irrelevant effects with respect to accounting on the basis of the nominal value. It is presumed that the effects are irrelevant as regards all short-term receivables as well as for all medium/long-term receivables, which accrue interest at a rate similar to the market rate and for which the differences between the initial value and the value at maturity (also taking account of any amounts directly attributable to the transaction that generated the receivable) are not significant

with respect to the nominal value of the receivable. The classification of accounts receivable under current assets and financial fixed assets excludes the principle of collectability (i.e. based on the period of time within which the assets will be converted to cash, conventionally represented by one year); instead they are classified on the basis of the role performed by the different assets as part of ordinary company operations. Accounts receivable relating to financial management are recognised under financial fixed assets, while accounts receivable regarding operations and other accounts receivables are booked to current assets. For the purposes of indicating the amounts collectable within and after 12 months, the classification is performed with reference to their contractual or legal expiry, by also taking into account:

- the facts and events set out in the contract, which may determine a change to the original expiry, which took place before the reporting date;
- the debtor's realistic ability to fulfil its obligation in accordance with the terms indicated in the contract;
- the time horizon in which the creditor reasonably believes it will be able to collect the receivable due.

An appropriate provision for write-downs is established in relation to potential risks of insolvency, whose consistency with positions of doubtful collectability is verified periodically and, in any case, at the end of each financial year, taking into consideration situations of non-collectability already verified or considered likely.

INVENTORIES

Inventories represent assets destined for sale or which contribute to their realisation in the normal activities of the Company and mainly include raw, ancillary and consumable materials. The assets in inventories are recognised at purchase cost, inclusive of related charges. The inventories are valued in the financial statements at the lower between cost and the realisable value based on the market as of the year-end date; the cost of the replaceable assets is determined using the weighted average cost method, since the quantities purchased are not individually identifiable, but are included in a series of assets equally available.

SHORT-TERM INVESTMENTS

Financial receivables deriving from the cash pooling relationship with parent companies were classified under item C.III.7 Financial assets for centralised treasury management which do not constitute fixed assets, in line with the provisions of new standard OIC 14.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents, recognised at their nominal amount, represent the year-end balance of bank deposits and cash in hand and are readily usable for Company purposes. They include all inflows and outflows taking place by the reporting date.

ACCRUALS AND DEFERRALS

These represent the costs and income common to two or more accounting periods, the amount of which varies over time. The amount of the accruals and deferrals is determined by means of the breakdown of the revenue or the cost, for the purpose of allocating just the pertinent portion to the current period.

For multi-year accruals and deferrals, the conditions that led to the initial posting were verified, making suitable changes where necessary.

ACCOUNTS PAYABLE

Payables include specific and certain liabilities, which represent obligations to pay a determinate amount usually on an established date. They are booked to the financial statements according to the amortised cost method, taking into consideration the time factor. In particular, the initial book value is represented by the nominal value of the account payable, net of transaction costs and all premiums, discounts and allowances deriving directly from the transaction that generated the payable. Transaction costs, any commission income and expense, and any difference between the initial value and the nominal value at maturity are included in the calculation of the amortised cost, using the effective interest rate method. The amortised cost method is not applied to those accounts payable for which its application would entail irrelevant effects with respect to accounting on the basis of

the nominal value. It is presumed that the effects are irrelevant as regards all short-term payables as well as for all medium/long-term payables, which accrue interest at a rate similar to the market rate and for which the differences between the initial value and the value at maturity (also taking account of any amounts directly attributable to the transaction that generated the payable) are not significant with respect to the nominal value of the payable.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges include costs and liabilities of a specific nature whose existence is certain or probable, but whose timing and extent are unknown as of the year end date. The provisions represent a realistic estimate of the liability to be incurred on the basis of the information available. When evaluating these provisions, the general principles of prudence and accruals are observed and steps are not taken to establish generic provisions lacking economic justification.

EMPLOYEE TERMINATION BENEFITS

The employee termination benefits are provided on an accruals basis in compliance with the law and employment contracts in force, considering all types of continuous wages and salaries. The amount recorded in the financial statements reflects the effective liability accrued in favour of employees as at the year-end date, net of advances paid out, and equals that which would be due to employees if their employment were to end on that date.

OPERATING REVENUES AND COSTS

Revenue from the transport and carrying of electricity is recognised when the relative service is provided to the customer, even if not yet invoiced.

This revenue is also adjusted to take into account the restrictions and mandatory tariffs established by ARERA. Through this mechanism of restrictions and mandatory tariffs, ARERA recognises the cost of the investments made in the grid to the party carrying out distribution activities, irrespective of the quantities transported and carried on it. Revenue from the sale of goods and costs for the purchase of the same are recognised at the moment of transfer of all risks and benefits connected with ownership, a transfer which normally coincides with shipping or delivery of the goods. Revenue and costs for services are recognised at the moment the service is rendered. Sales revenue and purchase costs are recorded, based on the principle of accrual accounting, net of returns, discounts, allowances and premiums, as well as the taxes directly associated with the sale or the purchase of products and services.

INCOME TAXES FOR THE YEAR

The current taxes for the year are established on the basis of a realistic forecast of the taxable income pertaining to the year, in accordance with current tax legislation and are stated, net of the advances paid and the withholdings made, in the item tax payables (in the event a net payable emerges) and in the item tax credits (in the event a net credit emerges). Prepaid and deferred taxes are provided for on the timing differences between the value assigned to an asset or liability on the basis of statutory criteria and the corresponding value for tax purposes. In observance of the prudent principle, prepaid taxes are recognised if their future recovery is reasonably certain. Any estimation variations (including rate variations) are allocated to the taxes for the year.

The content and significance of the main financial statements items are illustrated below.

Assets

Intangible assets and property, plant and equipment

Changes in historical cost during the year are shown below for intangible assets and property, plant and equipment, inclusive of any revaluations.

	OPENING BALANCE	INCREASES	DISPOSAL OF BU	DECREASES	CLOSING BALANCE
INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT					
I) INTANGIBLE ASSETS					
DEVELOPMENT COST	2,018,577	1,361	-	-	2,019,938
INDUSTRIAL PATENTS AND INTELLECTUAL PROPERTY RIGHTS	1,393,385	-	-	-	1,393,385
GOODWILL	47,550,507	-	-	-	47,550,507
OTHER INTANGIBLE ASSETS	382,748	7,840	-	-	390,588
I) INTANGIBLE ASSETS	51,345,217	9,201	-	-	51,354,418
II) PROPERTY, PLANT AND EQUIPMENT					
1) LAND AND BUILDINGS					
LAND	3,484,224	290,369	-	(3,800)	3,770,793
INDUSTRIAL BUILDINGS	36,143,472	702,782	(60,719)	(24,116)	36,761,419
OFFICE BUILDINGS	724,408	38,280	-	-	762,688
	40,352,104	1,031,431	(60,719)	(27,916)	41,294,900
2) PLANT AND EQUIPMENT					
ELECTRICITY SUBSTATIONS	114,331,325	2,528,636	(263,646)	(344,887)	116,251,428
ELEC. DISTRIBUTION GRIDS	441,176,385	11,902,392	(3,776,611)	(305,424)	448,996,742
	555,507,710	14,431,028	(4,040,257)	(650,311)	565,248,170
3) INDUSTRIAL AND COMMERCIAL FITTINGS					
FITTINGS	3,500,346	123,133	-	-	3,623,479
REMOTE CONTROL	10,463,110	469,085	-	-	10,932,195
METERS	29,559,565	521,090	(100,995)	(287,726)	29,691,934
	43,523,021	1,113,308	(100,995)	(287,726)	44,247,608
4) OTHER ASSETS					
FURNITURE AND OFFICE MACHINES	336,772	-	-	-	336,772
ELECTRONIC OFFICE MACHINES	860,843	74,626	-	-	935,469
DEDUCTIBLE VEHICLES	2,010,163	118,749	-	(16,457)	2,112,454
	3,207,778	193,375	-	(16,457)	3,384,695
5) WORK IN PROGRESS AND ADVANCE PAYMENTS					
WORK IN PROGRESS AND ADVANCE PAYMENTS	5,000	-	-	-	5,000
II) PROPERTY, PLANT AND EQUIPMENT	642,595,613	16,769,142	(4,201,971)	(982,410)	654,180,373
TOTALE BI) +BII)	693,940,830	16,778,343	(4,201,971)	(982,410)	705,534,791

Development costs regard the provision by the parent company Dolomiti Energia Holding of the equipment and licences to initiate management of the "Electronic metering" project. That cost is apportioned over the duration of the service agreement entered into with that company and, thus, for a period of 3 financial years.

Industrial patents and intellectual property rights relate to the purchase cost of user licences for the company's ERP management system.

Goodwill derives from purchases of business units and in particular of the former ENEL unit and the resulting merger with SET Holding SpA; the goodwill deriving from that transaction amounts to 47,498,618 euro. This value represents the higher price paid as compared to the business unit's shareholders' equity, not allocated to the assets acquired (already revalued during 2005 in compliance with Law no. 266 of 23 December

2005). Other less significant acquisitions that generated goodwill include the acquisition of the power company of Terlago (20,000 euro), the power company of Vervò (2,000 euro), of Tres (2,000 euro) and of Calliano (27,889 euro), the value of which derives from the difference between the consideration settled and the values of the assets transferred.

With reference to **property, plant and equipment**, systematic investment activities continued to support, in particular, the development, upgrading and adaptation of the distribution grids. During the year, ownership of the business units relating to the electricity distribution service in the areas of the Municipalities of Pozza di Fassa (TN), Vigo di Fassa (TN), Soraga (TN), Mezzolombardo (TN), Mezzocorona (TN) and San Michele all'Adige (TN) was sold, for a net book value of 1,284,067 euro; the Company realised a capital gain totalling 1,715,210 euro from this disposal.

The changes in accumulated amortisation and depreciation for intangible fixed assets and property, plant and equipment during the year are shown below.

	OPENING BALANCE	AMORTISATION/ DEPRECIATION	DISPOSAL OF BU	DECREASES	CLOSING BALANCE
INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT					
I) INTANGIBLE ASSETS					
DEVELOPMENT COSTS	(2,011,017)	(2,776)	-	-	(2,013,793)
INDUSTRIAL PATENTS AND INTELLECTUAL PROPERTY RIGHTS	(1,312,505)	(20,220)	-	-	(1,332,725)
GOODWILL	(20,937,581)	(1,900,923)	-	-	(22,838,504)
OTHER INTANGIBLE ASSETS	(155,767)	(42,069)	-	-	(197,836)
I) INTANGIBLE ASSETS	(24,416,870)	(1,965,988)	-	-	(26,382,858)
II) PROPERTY, PLANT AND EQUIPMENT					
1) LAND AND BUILDINGS					
LAND	(334,625)	-	-	-	(334,625)
INDUSTRIAL BUILDINGS	(17,659,448)	(787,819)	42,200	14,894	(18,390,173)
OFFICE BUILDINGS	(114,625)	(17,759)	-	-	(132,384)
	(18,108,698)	(805,578)	42,200	14,894	(18,857,182)
2) PLANT AND EQUIPMENT					
ELECTRICITY SUBSTATIONS	(63,768,925)	(2,558,668)	183,217	304,634	(65,839,742)
ELEC. DISTRIBUTION GRIDS	(265,897,701)	(10,100,948)	2,645,356	241,095	(273,112,198)
	(329,666,626)	(12,659,616)	2,828,573	545,729	(338,951,940)
3) INDUSTRIAL AND COMMERCIAL FITTINGS					
FITTINGS	(2,731,388)	(133,282)	-	-	(2,864,670)
REMOTE CONTROL	(8,185,657)	(220,613)	-	-	(8,406,270)
METERS	(14,764,934)	(2,009,750)	47,131	173,326	(16,554,227)
	(25,681,979)	(2,363,645)	47,131	173,326	(27,825,167)
4) OTHER ASSETS					
FURNITURE AND OFFICE MACHINES	(144,815)	(18,710)	-	-	(163,525)
ELECTRONIC OFFICE MACHINES	(789,973)	(18,906)	-	-	(808,879)
DEDUCTIBLE VEHICLES	(1,624,181)	(128,756)	-	13,330	(1,739,607)
	(2,558,969)	(166,372)	-	13,330	(2,712,011)
5) WORK IN PROGRESS AND ADVANCE PAYMENTS					
WORK IN PROGRESS AND ADVANCE PAYMENTS	-	-	-	-	-
II) PROPERTY, PLANT AND EQUIPMENT	(376,016,272)	(15,995,211)	2,917,904	747,279	(388,346,300)
TOTAL BI) + BII)	(400,433,142)	(17,961,199)	2,917,904	747,279	(414,729,158)

Goodwill is amortised based on the duration of the electricity concession, which is currently set to expire on 31 December 2030.

Property, plant and equipment are depreciated on the basis of the criteria and rates set forth in the "principles applied in the valuation of financial statement items" section.

The following table shows the change in the intangible assets and property, plant and equipment at net book value during the year.

	OPENING BALANCE	INCREASES	DEPRECIATION/AMORTISATION	DISPOSAL OF BU	NET VALUE OF ASSETS SOLD	CLOSING BALANCE
INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT						
I) INTANGIBLE ASSETS						
DEVELOPMENT COSTS	7,560	1,361	(2,776)	-	-	6,145
INDUSTRIAL PATENTS AND INTELLECTUAL PROPERTY RIGHTS	80,880	-	(20,220)	-	-	60,660
GOODWILL	26,612,926	-	(1,900,923)	-	-	24,712,003
OTHER INTANGIBLE ASSETS	226,981	7,840	(42,069)	-	-	192,752
I) INTANGIBLE ASSETS	26,928,347	9,201	(1,965,988)	-	-	24,971,560
II) PROPERTY, PLANT AND EQUIPMENT						
1) LAND AND BUILDINGS						
LAND	3,149,599	290,369	-	-	(3,800)	3,436,168
INDUSTRIAL BUILDINGS	18,484,024	702,782	(787,819)	(18,519)	(9,222)	18,371,246
OFFICE BUILDINGS	609,783	38,280	(17,759)	-	-	630,304
	22,243,406	1,031,431	(805,578)	(18,519)	(13,022)	22,437,718
2) PLANT AND EQUIPMENT						
ELECTRICITY SUBSTATIONS	50,562,400	2,528,636	(2,558,668)	(80,429)	(40,253)	50,411,686
ELEC. DISTRIBUTION GRIDS	175,278,684	11,902,392	(10,100,948)	(1,131,255)	(64,329)	175,884,544
	225,841,084	14,431,028	(12,659,616)	(1,211,684)	(104,582)	226,296,230
3) INDUSTRIAL AND COMMERCIAL FITTINGS						
FITTINGS	768,958	123,133	(133,282)	-	-	758,809
REMOTE CONTROL	2,277,453	469,085	(220,613)	-	-	2,525,925
METERS	14,794,631	521,090	(2,009,750)	(53,864)	(114,400)	13,137,707
	17,841,042	1,113,308	(2,363,645)	(53,864)	(114,400)	16,422,441
4) OTHER ASSETS						
FURNITURE AND OFFICE MACHINES	191,957	-	(18,710)	-	-	173,247
ELECTRONIC OFFICE MACHINES	70,870	74,626	(18,906)	-	-	126,590
DEDUCTIBLE VEHICLES	385,982	118,749	(128,756)	-	(3,127)	372,848
	648,809	193,375	(166,372)	-	(3,127)	672,685
5) WORK IN PROGRESS AND ADVANCE PAYMENTS						
WORK IN PROGRESS AND ADVANCE PAYMENTS	5,000	-	-	-	-	5,000
II) PROPERTY, PLANT AND EQUIPMENT	266,579,341	16,769,142	(15,995,211)	(1,284,067)	(235,131)	265,834,074
TOTAL BI) + BII)	293,507,688	16,778,343	(17,961,199)	(1,284,067)	(235,131)	290,805,634

The sale/disposal of used goods for a net book value of 235,131 euro resulted in a net capital loss for the Company of 94,459 euro.

Financial fixed assets

ACCOUNTS RECEIVABLE

	31/12/2017	31/12/2016	DIFFERENCE
MISCELLANEOUS ACCOUNTS RECEIVABLE - OTHER			
FROM OTHERS	55,266	45,582	9,684

Accounts receivable refer primarily to guarantee deposits paid to public authorities and private companies for electrical line crossings and electrical grid maintenance and development works.

Current assets

INVENTORIES

The movements during the year in the stock of materials in inventory are shown in the table below.

	OPENING BALANCE	PURCHASES	USAGES FOR CAPITALISED MATERIALS	USAGES FOR YEAR	CLOSING BALANCE
INVENTORIES					
RAW MATERIALS AND CONSUMABLES	2,783,664	3,779,335	(2,874,342)	(431,482)	3,257,175
TOTAL INVENTORIES	2,783,664	3,779,335	(2,874,342)	(431,482)	3,257,175

Closing inventories include the stock of meters (393,046 euro), electrical cables (977,776 euro) and other materials used in the construction of electrical grids (1,886,353 euro), of which a total of 1,048,279 euro is held in stock by third parties.

ACCOUNTS RECEIVABLE OF THE CURRENT ASSETS

Accounts receivable – customers, net of the provision for write-downs

	31/12/2017	31/12/2016	DIFFERENCE
ACCOUNTS RECEIVABLE			
ACCOUNTS RECEIVABLE - USERS AND CUSTOMERS			
INVOICES/BILLS ISSUED	7,601,374	7,018,273	583,101
ELECTRICITY SERVICE	7,303,168	6,728,916	574,252
OTHER SERVICES	298,206	289,357	8,849
INVOICES/BILLS TO BE ISSUED	1,828,787	2,087,196	(258,409)
ELECTRICITY SERVICE	1,787,410	2,053,352	(265,942)
OTHER SERVICES	41,377	33,844	7,533
PROVISION FOR WRITE-DOWNS	(619,250)	(534,078)	(85,172)
ACCOUNTS RECEIVABLE - USERS AND CUSTOMERS	8,810,911	8,571,391	239,520

Accounts receivable from customers refer primarily to receivables deriving from the carrier service provided to sales companies, technical works and connections to the electricity distribution grid; the balance is substantially aligned with 31 December 2016.

In 2017, the Company deemed it appropriate to adjust the provision for write-downs by recognising a provision of 149,397 euro, against total uses of 64,225 euro; the changes are reported below.

	31/12/2017	31/12/2016	DIFFERENCE
PROVISION FOR WRITE-DOWNS			
PROVISION FOR WRITE-DOWNS	(534,078)	(401,056)	(133,022)
PROVISION FOR WRITE-DOWNS	(149,397)	(150,802)	1,405
PROVISION	64,225	17,780	46,445
USAGE	(619,250)	(534,078)	(85,172)

Accounts receivable - parent companies

	31/12/2017	31/12/2016	DIFFERENCE
ACCOUNTS RECEIVABLE - PARENT COMPANIES			
INVOICES/BILLS ISSUED	124,192	42,669	81,523
ELECTRICITY SERVICE	24,250	-	24,250
OTHER SERVICES	99,942	42,669	57,273
INVOICES/BILLS TO BE ISSUED	3,070,960	3,145,101	(74,141)
OTHER SERVICES	3,070,960	3,145,101	(74,141)
ACCOUNTS RECEIVABLE - PARENT COMPANIES	3,195,152	3,187,770	7,382

The receivables due from parent companies include 2,408,562 euro for the VAT credit transferred to the parent company Dolomiti Energia Holding as part of the Group VAT arrangement, and 641,578 euro for the IRES 2012 credit as a result of the application for refund for the failure to deduct IRAP (productivity tax) (Art. 4, paragraph 12 of Law Decree no. 16 of 2 March 2012), also transferred to the parent company in accordance with the national tax consolidation contract, with the characteristics described below:

- term of the transaction: from 2016 to 2018;

- transfer of taxable income: if the consolidated company records positive taxable income, it must pay the tax to the consolidating company with a settlement date no later than the deadline for payments to the tax authorities;
- transfer of tax losses: if a negative taxable income is recorded (tax loss), the consolidating company agrees to recognise a final amount equal to the amount of the loss less 3% for discounting purposes.

There are also receivables for the provision of services of 85,339 euro.

Accounts receivable - companies subject to control by parent companies

	31/12/2017	31/12/2016	DIFFERENCE
ACCT. REC. - COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES			
INVOICES/BILLS ISSUED	15,841,922	16,290,161	(448,239)
ELECTRICITY SERVICE	15,679,269	16,232,312	(553,043)
OTHER SERVICES	162,653	57,849	104,804
INVOICES/BILLS TO BE ISSUED	4,494,788	5,318,449	(823,661)
ELECTRICITY SERVICE	4,459,243	5,460,293	(1,001,050)
OTHER SERVICES	35,545	(141,844)	177,389
ACCT. REC. - COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES	20,336,710	21,608,610	(1,271,900)

Receivables from companies subject to control by parent companies refer primarily to receivables from Dolomiti Energia SpA (19,940,910 euro) and Dolomiti Energia Group sales companies, for

the electricity carrier service, connections and technical works. They also include receivables from other Group companies for the provision of services.

Tax credits

	31/12/2017	31/12/2016	DIFFERENCE
TAX CREDITS			
OTHER TAX CREDITS	-	88	(88)
IRAP CREDIT (PRODUCTIVITY TAX)	34,494	519,817	(485,323)
VIRTUAL STAMP DUTY	6,922	364	6,558
TAX CREDITS	41,416	520,269	(478,853)

The IRAP credit of 34,494 euro represents the excess of advances paid with respect to the tax payable for 2017.

Prepaid tax credits

	31/12/2017	31/12/2016	DIFFERENCE
PREPAID TAXES			
PREPAID TAXES	8,274,070	7,758,351	515,719

For details of prepaid tax credits please see the statements of temporary differences that led to the recognition of deferred tax assets and liabilities.

Accounts receivable - others

	31/12/2017	31/12/2016	DIFFERENCE
ACCOUNTS RECEIVABLE - OTHERS			
OTHER CREDITS	232,163	200,288	31,875
ACCOUNTS RECEIVABLE - CSEA	26,929,047	13,647,646	13,281,401
RENEWABLE SOURCE CERTIFICATES	452,692	578,664	(125,972)
ADVANCES/DEPOSITS	98,816	61,512	37,304
ACCOUNTS RECEIVABLE - SOCIAL SECURITY INSTITUTIONS	27,521	24,179	3,342
ACCOUNTS RECEIVABLE - OTHERS, SHORT-TERM	27,740,239	14,512,289	13,227,950

The item amounts due from the CSEA (Energy And Environmental Services Fund) includes primarily receivables for the transport adjustment (distribution and measurement) and grid efficiency for a total of 4,317,297 euro (1,252,775 euro at 31 December 2016), the 2011 measurement adjustment (still pending the finalisation thereof, estimated at 1,000,000 euro), bonuses for the

output-based regulations of the electricity distribution service for the year 2016 for 1,580,518 euro (recognised based on AEEGSI Resolution 793/2017/R/EEL) and energy efficiency certificates for 19,691,334 euro. The considerable increase compared to the previous year can be attributed to lower collections received from CSEA for the 2017 adjustment compared to the previous

year and primarily the non-cancellation and therefore the failure to collect on energy efficiency certificates for the 2016 obligation, equal to 8,619,333 euro.

Receivables for renewable source certificates

(452,692 euro) refer to energy efficiency certificates accruing on energy efficiency projects realised by third parties and acquired by the Company to cover the 2014-2021 period; the remaining receivable represents the value of such certificates that will be recognised to SET from 2018 to 2021.

Breakdown of receivables by maturity

	31/12/2017 BOOK VALUE (2+3+4) 1	MAT. VALUE - SUBSEQUENT YEAR 2	MAT. VALUE - SUBSEQUENT 4 YEARS 3	BEYOND 5 YEARS 4
BREAKDOWN OF RECEIVABLES BY MATURITY				
RECEIVABLES WHICH ARE FIXED ASSETS				
FROM OTHERS	55,266	-	-	55,266
ACCOUNTS RECEIVABLE OF THE CURRENT ASSETS				
ACCOUNTS RECEIVABLE - CUSTOMERS	8,810,911	8,810,911	-	-
ACCOUNTS RECEIVABLE - PARENT COMPANIES	3,195,152	3,195,152	-	-
ACCT. REC. - COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES	20,336,710	20,336,710	-	-
TAX CREDITS	41,416	41,416	-	-
PREPAID TAXES	8,274,070	8,274,070	-	-
ACCOUNTS RECEIVABLE - OTHERS, SHORT-TERM	27,740,239	27,740,239	-	-
TOTAL	68,453,764	68,398,498	-	55,266

The company has no accounts receivable positions outstanding with foreign entities.

SHORT-TERM INVESTMENTS

Accounts receivable - parent companies

	31/12/2017	31/12/2016	DIFFERENCE
FINANCIAL ASSETS FOR CENTRALISED TREASURY MANAGEMENT			
PARENT COMPANIES	61,419,054	65,180,392	(3,761,338)

This receivable refers exclusively to a positive cash pooling balance due from the parent company as well as pooler Dolomiti Energia Holding. Interest accrues at market rates on this financial receivable.

CASH AND CASH EQUIVALENTS

	31/12/2017	31/12/2016	DIFFERENCE
CASH AND CASH EQUIVALENTS			
BANK AND POSTAL CURRENT ACCOUNTS	105,578	79,124	26,454
CASH ON HAND	865	1,310	(445)
TOTAL CASH AND CASH EQUIVALENTS	106,443	80,434	26,009

At 31 December 2017, the balance includes bank deposits and cash in hand actually available and readily realisable at the date of year-end close.

Prepayments and accrued income

	31/12/2017	31/12/2016	DIFFERENCE
PREPAYMENTS AND ACCRUED INCOME			
ANNUAL PREPAYMENTS	36,373	38,872	(2,499)
MULTI-YEAR PREPAYMENTS	17,125	18,425	(1,300)
TOTAL PREPAYMENTS AND ACCRUED INCOME	53,498	57,297	(3,799)

These refer to maintenance expense, lease payments, concession fees, licences and policies, whose accrual overlaps several financial years.

Shareholders' equity and liabilities

Shareholders' equity

As at 31 December 2017 the shareholding structure was as follows.

	NUMBER OF SHARES	%
SHAREHOLDERS		
DOLOMITI ENERGIA HOLDING S.P.A.	83,645,346	74.52%
AUTONOMOUS PROVINCE OF TRENTO	16,913,335	15.07%
CLES MUNICIPAL AUTHORITY	3,506,412	3.12%
A.G.S. SPA RIVA DEL GARDA	2,400,358	2.14%
STET SPA	2,253,691	2.01%
AIR SPA	1,430,000	1.27%
FAI DELLA PAGANELLA MUNICIPAL AUTHORITY	709,398	0.63%
MONCLASSICO MUNICIPAL AUTHORITY	542,184	0.48%
VARENA MUNICIPAL AUTHORITY	227,723	0.20%
CONS. ELETTRICO STORO	155,833	0.14%
CONS. ELETTRICO INDUSTRIALE DI STENICO	146,667	0.13%
CONS. ELETTRICO DI POZZA DI FASSA	100,832	0.09%
A.S.M. TIONE	82,499	0.07%
A.C.S.M. FIERA DI PRIMIERO	72,499	0.06%
CONSORZIO DEI COMUNI	55,000	0.05%
TOTAL	112,241,777	100.00%

On 24 May 2005 ENEL Distribuzione SpA established SET Distribuzione srl, which conferred its business unit relating to the management of electricity distribution in the Trentino area, effective from 12:00 a.m. of 30 June 2005. SET Holding SpA (subsidiary of Dolomiti Energia SpA, – now Dolomiti Energia Holding SpA – invested in by the Autonomous Province, Local Entities of Trentino and/or their Companies) acquired 100% of the

share capital of SET Distribuzione srl (transformed into a joint-stock company (società per azioni) on 4 July 2005). Effective 1 January 2011 Dolomiti Energia Holding conferred to SET Distribuzione its electricity distribution business unit, increasing its investment by 53,161,209 euro.

The shareholding structure in 2017 remained unchanged on 31 December 2016.

Changes in shareholders' equity accounts in the last two years were as follows:

	I) SHARE CAPITAL	II) SHARE PREMIUM RESERVE	IV) LEGAL RESERVE	VI) OTHER RESERVES	VIII) RETAINED EARNINGS OR LOSSES	IX) PROFIT OR LOSS FOR THE YEAR	TOTAL
VALUE AS AT 31/12/2015	112,241,777	2,517,012	2,428,086	27,807,057	24,130	12,082,463	157,100,525
ALLOCATION OF PROFIT FOR THE YEAR	-	-	604,005	4,741,596	-	(12,082,463)	(6,736,862)
OTHER CHANGES	-	-	-	1	2,355	-	2,356
PROFIT/LOSS FOR THE YEAR	-	-	-	-	-	10,696,150	10,696,150
VALUE AS AT 31/12/2016	112,241,777	2,517,012	3,032,091	32,548,654	26,485	10,696,150	161,062,169
ALLOCATION OF PROFIT FOR THE YEAR	-	-	534,808	3,426,835	-	(10,696,150)	(6,734,507)
OTHER CHANGES	-	-	-	(1)	-	-	(1)
PROFIT/LOSS FOR THE YEAR	-	-	-	-	-	11,625,032	11,625,032
VALUE AS AT 31/12/2017	112,241,777	2,517,012	3,566,899	35,975,488	26,485	11,625,032	165,952,693

In 2017 and 2016 dividends were distributed for 6,734,507 euro and 6,736,862 euro, respectively.

The table below analyses Shareholders' Equity in terms of availability and distribution options.

	31/12/2017 AMOUNT	USAGE OPTIONS	AVAILABLE PORTION	USAGE SUMMARY FOR PAST THREE YEARS	
				TO COVER LOSSES	TO COVER LOSSES
AVAILABILITY AND DISTRIBUTION OPTIONS FOR SHAREHOLDERS' EQUITY					
I) SHARE CAPITAL	112,241,777				
EQUITY RESERVES					
II) SHARE PREMIUM RESERVE	2,517,012	A, B	2,517,012	-	-
PROFIT RESERVES					
IV) LEGAL RESERVE	3,566,899	B		-	-
EXTRAORDINARY RESERVE	35,975,488	A, B, C	35,975,488	-	-
VIII) RETAINED EARNINGS OR LOSSES	26,485	A, B, C	26,485	-	-
TOTAL	154,327,661		38,518,985		
NON-DISTRIBUTABLE PORTION			(2,523,157)		
RESIDUAL DISTRIBUTABLE PORTION			35,995,828		

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

The share premium reserve cannot be distributed until such time as the legal reserve reaches 20% of the share capital (Art. 2431 of the Italian Civil Code). In total, non-distributable reserves as at 31 December 2017 amounted to 2,523,157 euro, as

2,517,012 euro are related to the share premium reserve and 6,145 euro to coverage of the amount of development costs not yet amortised at the end of the year, pursuant to Art. 2426, no. 5 of the Italian Civil Code.

Provisions for risks and charges

PROVISION FOR INCOME TAXES

	31/12/2017	31/12/2016	DIFFERENCE
PROVISION FOR INCOME TAXES (INCLUDING DEFERRED TAXES)			
PROVISION FOR INCOME TAXES	43,000	-	43,000
DEFERRED TAX PROVISION	2,697,973	2,891,206	(193,233)
TOTAL PROVISION FOR INCOME TAXES	2,740,973	2,891,206	(150,233)

Following an assessment issued by the Italian Inland Revenue during the year regarding VAT for previous years, the Company deemed it appropriate to set aside a specific provision for risks of 43,000 euro.

For details of deferred taxes please see the statements of temporary differences that led to the recognition of deferred tax assets and liabilities, indicated at the end of the Notes.

ASSESSMENT BY THE ITALIAN INLAND REVENUE

In 2008, the Company was subject to a tax inspection conducted by the Guardia di Finanza which resulted in findings of a single charge relating to failure to apply registration tax to the acquisition of a business unit from ENEL Distribuzione S.p.A. for electricity distribution management in the Trentino area.

In October 2008 SET lodged an appeal with the First Instance Tax Commission of Trento against the finding, which the Commission rejected by sentence of 26 March 2009.

In February 2009 the payment order was received

in relation to the aforementioned inspection. The order indicates charges, including sanctions, of 8,158,586 euro. On 29 June 2009 the appointed legal advisor filed an appeal with the Second Instance Tax Commission of Trento against the first instance decision.

In relation to the sentence the Company agreed with the Trento Tax Authority on settlement of the amount of the payment order (8,566,222 euro) based on the findings. Settlement of the order resulted in a significant savings for SET in terms of interest due to the tax authorities.

By sentence of 21 June 2010 the Second Instance Tax Commission rejected the appeal. Convinced of the correct nature of its operations, the Company appealed against the decision before the Court of Cassation and the Supreme Court's ruling is pending.

With regard to accounting recognition of this event, during 2010 the Company recorded the entire amount mentioned above as extraordinary charges and as a balancing entry for the provision for income taxes, which in turn offset the credit of the same nature generated by virtue of the payments made.

Employee termination benefits

This provision relates to accounts payable by the Company to employees in service as at year-end in accordance with Article 2120 of the Italian Civil Code, employment contracts and corporate

relations. The amount as at 31 December 2017 came to 3,313,163 euro.

The movements in employee termination benefits during the year were as follows:

	31/12/2017	31/12/2016	DIFFERENCE
EMPLOYEE TERMINATION BENEFITS			
C) EMPLOYEE TERMINATION BENEFITS			
OPENING BALANCE	3,605,828	3,862,017	(256,189)
ALLOCATED DURING THE YEAR	799,288	809,083	(9,795)
DECREASES	(581,143)	(387,835)	(193,308)
OTHER CHANGES	(510,810)	(677,437)	166,627
EMPLOYEE TERMINATION BENEFITS	3,313,163	3,605,828	(292,665)

The item 'decreases' identifies uses for terminations of employment contracts (18 terminations during the year) and advances to employees, while the 'other changes' represent the severance

indemnity (TFR) accrued during the year and paid to supplementary pension funds. For details on changes in headcount, please refer to the Report on Operations.

Accounts payable

BONDS

	31/12/2017	31/12/2016	DIFFERENCE
BONDS	111,949,364	111,936,320	13,044
- WITHIN 12 MONTHS	2,107,180	2,102,373	4,807
- AFTER 12 MONTHS	109,842,184	109,833,947	8,237

The bond loan was issued by SET Distribuzione, by virtue of the resolution of the Board of Directors of 21 July 2006, pursuant to Art. 2412, paragraph 1 of the Italian Civil Code, for a nominal value of 110,000,000 euro, at a fixed rate of 4.60%, guaranteed by an irrevocable first demand surety issued by the Trento Autonomous Province. The value shown derives from the valuation of the payable at amortised cost, as described in the valuation criteria, and the short-

term portion represents the payable for the interest accrued as at 31 December 2017 on the half-yearly coupon, to be liquidated during the following year.

The bond has a duration of 23 years as from 1 August 2006 and therefore until 1 August 2029, and shall be repaid at par in a single solution on the maturity date. Effective as of 14 February 2018, the loan was listed on the Irish Stock Exchange p.l.c.

ACCOUNTS PAYABLE - BANKS

At 31 December 2017, the Company did not have accounts payable to banks (710 euro at 31 December 2016, equal to the negative balance on current accounts).

TRADE PAYABLES

	31/12/2017	31/12/2016	DIFFERENCE
TRADE PAYABLES			
PAYABLES FOR INVOICES RECEIVED	16,498,000	15,640,686	857,314
ELECTRICITY SERVICE	15,926,902	15,121,643	805,259
OTHER SERVICES	571,098	519,043	52,055
PAYABLES FOR INVOICES TO BE RECEIVED	16,242,369	17,463,680	(1,221,311)
ELECTRICITY SERVICE	16,094,461	16,247,767	(153,306)
OTHER SERVICES	147,908	1,215,913	(1,068,005)
TRADE PAYABLES	32,740,369	33,104,366	(363,997)

Trade payables for the acquisition of materials and services at the end of 2017 are basically aligned with the balance recorded at 31 December 2016.

ACCOUNTS PAYABLE - PARENT COMPANIES

	31/12/2017	31/12/2016	DIFFERENCE
ACCOUNTS PAYABLE - PARENT COMPANIES			
PAYABLES FOR INVOICES RECEIVED	760,728	387,639	373,089
ELECTRICITY SERVICE	8,751	-	8,751
OTHER SERVICES	751,977	387,639	364,338
PAYABLES FOR INVOICES TO BE RECEIVED	3,406,100	1,902,403	1,503,697
ELECTRICITY SERVICE	-	7,441	(7,441)
OTHER SERVICES	3,406,100	1,894,962	1,511,138
ACCOUNTS PAYABLE - PARENT COMPANIES	4,166,828	2,290,042	1,876,786
OF WHICH			
ACCOUNTS PAYABLE - PARENT COMPANIES FOR TAXES	3,310,320	1,490,382	1,819,938

Payables to the parent company Dolomiti Energia Holding include amounts due for IRES for the year (3,310,320 euro; 1,490,382 euro at 31 December 2016), as a result of participation in

national tax consolidation. They also include payables for administrative/logistics services provided by the parent company (745,662 euro).

ACCOUNTS PAYABLE - COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES

	31/12/2017	31/12/2016	DIFFERENCE
ACCOUNTS PAYABLE - COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES			
PAYABLES FOR INVOICES RECEIVED	29,673,157	29,311,393	361,764
ELECTRICITY SERVICE	29,191,057	29,218,056	(26,999)
OTHER SERVICES	482,100	93,337	388,763
PAYABLES FOR INVOICES TO BE RECEIVED	9,711,020	10,857,526	(1,146,506)
ELECTRICITY SERVICE	9,649,095	10,781,485	(1,132,390)
OTHER SERVICES	61,925	76,041	(14,116)
ACCOUNTS PAYABLE - COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES	39,384,177	40,168,919	(784,742)

The item includes guarantee deposits received from Dolomiti Energia and Dolomiti Energia Trading to guarantee agreements for transport services (29,179,700 euro), unchanged with respect to 31 December 2016. It also includes payables

for the purchase of energy efficiency certificates from Dolomiti Energia Trading to cover the obligation for the years 2017, 2016 and 2015, amounting to 9,265,075 euro (10,758,110 euro at 31 December 2016).

TAX PAYABLES

	31/12/2017	31/12/2016	DIFFERENCE
TAX PAYABLES			
IRPEF	455,743	326,504	129,239
STAMP DUTY	7,506	-	7,506
TAX PAYABLES	463,249	326,504	136,745

Payables for IRPEF mainly refer to the withholdings on employees' income accrued as of December 2017,

which the Company paid in January 2018, as the withholding agent.

SOCIAL SECURITY PAYABLES

	31/12/2017	31/12/2016	DIFFERENCE
SOCIAL SECURITY PAYABLES			
ACCOUNTS PAYABLE - INPS	485,252	490,626	(5,374)
ACCOUNTS PAYABLE - INPDAP	119,371	123,883	(4,512)
ACCOUNTS PAYABLE - INAIL	-	360	(360)
SUPPLEMENTARY PENSION FUNDS	210,644	145,496	65,148
SOCIAL SECURITY PAYABLES	815,267	760,365	54,902

Payables at 31 December 2017 refer to amounts accrued in the last quarter of the year, which were subsequently paid in full in January 2018.

OTHER ACCOUNTS PAYABLE

	31/12/2017	31/12/2016	DIFFERENCE
OTHER ACCOUNTS PAYABLE			
OTHER ACCOUNTS PAYABLE	459,242	946,103	(486,861)
ACCOUNTS PAYABLE - EMPLOYEES	1,229,166	1,229,744	(578)
- WITHIN 12 MONTHS	1,688,408	2,175,847	(487,439)
GUARANTEE DEPOSITS FROM THIRD PARTIES	921,440	287,689	633,751
- AFTER 12 MONTHS	921,440	287,689	633,751
OTHER ACCOUNTS PAYABLE	2,609,848	2,463,536	146,312

Accounts payable - employees relate to bonuses accrued to be paid and to amounts accrued and not yet paid (unused holidays and leave, gross of the related charges for contributions). Guarantee

deposits from third parties rose as a result of new deposits made by sales companies that use the grid to supply end users.

BREAKDOWN OF ACCOUNTS PAYABLE BY MATURITY

	31/12/2017 BOOK VALUE (2+3+4)	MAT. VALUE - SUBSEQUENT YEAR	MAT. VALUE - SUBSEQUENT 4 YEARS	BEYOND 5 YEARS
	1	2	3	4
BREAKDOWN OF ACCOUNTS PAYABLE BY MATURITY				
D) PAYABLES				
BONDS	111,949,364	2,107,180	-	109,842,184
TRADE PAYABLES	32,740,369	32,740,369	-	-
ACCOUNTS PAYABLE - PARENT COMPANIES	4,166,828	4,166,828	-	-
ACCT. PAYABLE - COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES	39,384,177	10,204,477	29,179,700	-
TAX PAYABLES	463,249	463,249	-	-
SOCIAL SECURITY PAYABLES	815,267	815,267	-	-
OTHER ACCOUNTS PAYABLE	2,609,848	1,688,408	921,440	-
TOTAL	192,129,102	52,185,778	30,101,140	109,842,184

The Company has no accounts payable positions outstanding with foreign entities.

Accrued liabilities and deferred income

	31/12/2017	31/12/2016	DIFFERENCE
ACCRUED LIABILITIES AND DEFERRED INCOME			
ACCRUED LIABILITIES	48,020	47,706	314
DEFERRED INCOME	59,368,336	58,609,493	758,843
DEFERRED INCOME - PLANT-RELATED GRANTS	543,281	546,573	(3,292)
ACCRUED LIABILITIES AND DEFERRED INCOME	59,959,637	59,203,772	755,865

Accrued liabilities include the amount attributable to the year 2017 for fees on the surety issued by the Trento Autonomous Province to guarantee the bond loan (47,707 euro).

Deferred income represents the share of revenues

for connections invoiced to end users and recognised in the income statement in correlation with the expected useful life of the investment to which they refer; they are calculated as follows.

	GROSS CHARGES	CHARGED TO INCOME STATEMENT	DISCOUNTED AS AT 31.12.2017	TO BE DISCOUNTED AS AT 31.12.2017
FORMER ENEL CONNECTIONS	5,184,673	160,835	2,053,978	3,130,696
2005 CONNECTIONS	2,884,778	80,192	1,120,547	1,764,231
2006 CONNECTIONS	5,744,222	164,121	1,969,448	3,774,774
2007 CONNECTIONS	4,952,250	141,493	1,556,421	3,395,829
2008 CONNECTIONS	4,770,256	136,293	1,362,930	3,407,326
2009 CONNECTIONS	5,821,527	166,329	1,496,964	4,324,563
2010 CONNECTIONS	5,390,497	154,014	1,232,114	4,158,383
2011 CONNECTIONS	20,591,712	583,243	9,043,579	11,548,133
- CONNECT. D.E. SPA CONTRIBUTION	12,759,501	359,465	7,477,137	5,282,365
2012 CONNECTIONS	7,754,010	221,543	1,329,259	6,424,751
2013 CONNECTIONS	4,609,357	131,696	658,480	3,950,877
2014 CONNECTIONS	4,408,732	125,964	503,855	3,904,877
2015 CONNECTIONS	4,226,812	120,766	362,298	3,864,514
2016 CONNECTIONS	2,652,125	75,775	151,550	2,500,575
2017 CONNECTIONS	3,313,478	94,671	94,671	3,218,807
TOTAL	82,304,429	2,356,935	22,936,094	59,368,336

Deferred income for plant-related grants (543,281 euro) is released to the income statement throughout a period equal to the useful life of the assets to which they refer, in line with the relative depreciation.

Income statement

Production value

REVENUE FROM SALES AND SERVICES

	31/12/2017	31/12/2016	DIFFERENCE
REVENUE FROM SALES AND SERVICES			
ELECTRICITY REVENUE	71,646,732	71,504,758	141,974
OTHER REVENUE	3,775,126	3,985,244	(210,118)
PUBLIC LIGHTING REVENUE	290,631	252,339	38,292
REVENUE FROM SALES AND SERVICES	75,712,489	75,742,341	(29,852)

The item 'electricity revenue', primarily relating to the tariff for the energy transport and carrier service, also includes the estimate of adjustments for the year 2017 for the unregulated and protected markets for a total of 4,353,000 euro (6,965,000 euro in 2016). 'Other revenue' relates for the most

part to connection contributions invoiced to users for 2,804,671 euro (2,782,086 euro in the previous year) and also includes 618,000 euro for the estimate relating to grid efficiency (540,000 euro in the previous year), calculated as the difference between losses set out in agreements and real losses.

CAPITALISED IMPROVEMENTS

	31/12/2017	31/12/2016	DIFFERENCE
INCREASES IN FIXED ASSETS FOR IN-HOUSE PROJECTS			
CAPITALISATIONS FROM INVENTORIES	2,874,342	2,581,932	292,410
CAPITALISATIONS OF PERSONNEL COSTS	3,212,900	3,518,019	(305,119)
INCREASES IN FIXED ASSETS FOR IN-HOUSE PROJECTS	6,087,242	6,099,951	(12,709)

The company capitalises internal costs for materials and labour used in the construction of electricity distribution grids.

OTHER REVENUE

	31/12/2017	31/12/2016	DIFFERENCE
OTHER REVENUE AND INCOME			
OTHER REVENUE	442,805	420,557	22,248
REAL ESTATE INCOME	393,178	126,588	266,590
GAINS FROM STANDARD OPERATIONS	1,871,997	48,932	1,823,065
REVENUE FROM EXTRAORDINARY MAINTENANCE	144,200	102,244	41,956
SERVICES TO THIRD PARTIES	672,803	1,215,817	(543,014)
DE GROUP REVENUE	2,400,270	2,297,402	102,868
ENERGY EFFICIENCY	6,519,680	8,564,521	(2,044,841)
CONTINENT LIABILITIES - OTHER REVENUE AND INCOME	4,613,082	4,156,041	457,041
OTHER REVENUE	17,058,015	16,932,102	125,913
CONTRIBUTIONS FOR PLANT	44,434	1,011,526	(967,092)
GRANTS	44,434	1,011,526	(967,092)
OTHER REVENUE AND INCOME (NO SALE/SERV.)	17,102,449	17,943,628	(841,179)

The item 'gains from standard operations' includes 1,715,210 euro for the capital gain deriving from the disposal of electricity business units, information on which is provided in the section on intangible assets and property, plant and equipment.

The 'energy efficiency' item represents the estimated tariff contribution recognised for the completion of energy efficiency projects or the purchase in the market of the certificates required for compliance with the mandatory primary energy savings system applied to energy distributors.

Contingent assets include, inter alia, the difference between the estimated tariff contribution recognised on energy efficiency certificates for the years 2015 and 2016 (1,913,012 euro) and the estimated bonus relating to the output-based regulations of the electricity distribution service for the year 2016, for 1,580,518 euro (recognised in light of AEEGSI Resolution 793/2017/R/EEL).

Revenues are not broken down by geographical area, as they were all achieved in Italy.

Production costs

COSTS FOR PURCHASES OF RAW MATERIALS

	31/12/2017	31/12/2016	DIFFERENCE
EXT. PURCHASES OF RAW MAT., CONSUMABLES AND MERCHANDISE			
PURCHASES OF INVENTORIES	(3,779,335)	(3,021,321)	(758,014)
PURCHASES OF FUELS	(313,581)	(372,792)	59,211
PURCHASES OF VEHICLE SPARE PARTS	(948)	(3,585)	2,637
PURCHASE OF MATERIALS NOT IN INVENTORY	(407,604)	(313,865)	(93,739)
CONTINGENT LIABILITIES - EXT. PURCHASES OF RAW MAT., CONSUMABLES AND MERCHANDISE	(3,690)	(8,906)	5,216
EXT. PURCHASES OF RAW MAT., CONSUMABLES AND MERCHANDISE	(4,505,158)	(3,720,469)	(784,689)

Purchases of inventories refer to electrical cables, meters and other consumables used in the construction and maintenance of distribution grids.

SERVICE COSTS

	31/12/2017	31/12/2016	DIFFERENCE
EXTERNAL PURCHASES OF SERVICES			
EXTERNAL MAINTENANCE SERVICES	(1,905,818)	(1,747,293)	(158,525)
INSURANCE, BANKING AND FINANCIAL SERVICES	(901,824)	(889,803)	(12,021)
OTHER SERVICES	(830,992)	(788,703)	(42,289)
COMMERCIAL SERVICES	(20,997,702)	(21,333,659)	335,957
GENERAL SERVICES	(976,683)	(920,937)	(55,746)
CONTINENT LIABILITIES - EXTERNAL PURCHASES OF SERVICES	(265,769)	(49,723)	(216,046)
EXTERNAL PURCHASES OF SERVICES	(25,878,788)	(25,730,118)	(148,670)

External maintenance services include third parties services on the distribution grid for 1,104,344 euro (1,063,554 euro in 2016).

Other services include services for employees for 523,340 euro (528,471 euro in the previous year).

Commercial services of 17,340,589 euro refer to electricity carrier services (17,510,461 euro in 2016) and of 3,647,692 euro to services provided by the parent company Dolomiti Energia Holding and other related companies (3,815,001 euro in 2016).

General services includes a total of 685,335 euro referring to the cost of utilities and telephony services, including services for remote reading and remote control lines, the latter increasing by 80,463 euro with respect to 2016; they also include costs for the internal and external management and control bodies (see the 'other information' section for details on fees paid to the directors, the board of statutory auditors and the independent auditors) and membership fees (56,581 euro, in line with the previous year).

COSTS FOR USE OF THIRD PARTY ASSETS

	31/12/2017	31/12/2016	DIFFERENCE
COSTS FOR USE OF THIRD PARTY ASSETS			
MISCELLANEOUS COSTS	(181,697)	(168,125)	(13,572)
RENTAL EXPENSE	(1,542,847)	(1,169,286)	(373,561)
RENTAL FEES	(535,048)	(493,031)	(42,017)
EASEMENT	(16,000)	(28,555)	12,555
SERVICE CONTRACT CHARGES	(218,232)	(219,647)	1,415
CONTINENT LIABILITIES - COST FOR USE OF THIRD PARTY ASSETS	(17,163)	(5,256)	(11,907)
COSTS FOR USE OF THIRD PARTY ASSETS	(2,510,987)	(2,083,900)	(415,180)

Rental expense includes 998,185 euro for rent on properties (registered office, peripheral offices and stations), in line with the previous year, as well as 544,661 euro for business unit leases (179,516 euro in 2016); the increase in this last item was primarily the result of the new

electricity business unit lease agreement for the Municipality of Predazzo, which became effective in January 2017.

Rental fees relate to the cost of renting vehicles for company business purposes.

PERSONNEL COSTS

	31/12/2017	31/12/2016	DIFFERENCE
PERSONNEL COSTS			
A) WAGES AND SALARIES	(11,676,941)	(11,919,580)	242,639
B) SOCIAL SECURITY COSTS	(3,608,187)	(3,724,939)	116,752
C) EMPLOYEE TERMINATION BENEFITS	(799,288)	(809,083)	9,795
E) OTHER COSTS	(934,869)	(912,083)	(22,786)
PERSONNEL COSTS	(17,019,285)	(17,365,685)	346,400

Personnel costs (basically aligned with last year) were incurred for a headcount of 270 at 31

December 2017 (278 at 31 December 2016) and are broken down as follows by category.

	31/12/2017	31/12/2016	DIFFERENCE
INFORMATION ON EMPLOYEES			
PERSONNEL			
EXECUTIVES	1	2	(1)
MANAGERS	7	7	-
EMPLOYEES	160	161	(1)
MANUAL WORKERS	102	108	(6)
TOTAL PERSONNEL	270	278	(8)

For changes in headcount, please refer to the Report on Operations.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

	31/12/2017	31/12/2016	DIFFERENCE
AMORTISATION, DEPRECIATION AND WRITE-DOWNS			
A) AMORTISATION OF INTANGIBLE ASSETS	(1,965,988)	(1,963,021)	(2,967)
B) DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	(15,995,211)	(16,053,355)	58,144
D) WRITE-DOWN OF ACCOUNTS RECEIVABLE RECOGNISED TO CURRENT ASSETS	(149,397)	(150,802)	1,405
AMORTISATION, DEPRECIATION AND WRITE-DOWNS	(18,110,596)	(18,167,178)	56,582

Amortisation and depreciation in 2017 were in line with the previous year. Please refer to the section on intangible assets and property, plant and equipment for information on trends resulting from

investments and disinvestments during the year. To adjust trade receivables to their presumed realisable value, the Company recognised 149,397 euro in the provision for write-downs.

CHANGES IN INVENTORIES

	31/12/2017	31/12/2016	DIFFERENCE
CHANGE IN INVENTORIES OF RAW MATERIALS, CONSUMABLES AND MERCHANDISE			
CHANGE IN INVENTORIES OF RAW MATERIALS, CONSUMABLES AND MERCHANDISE	473,511	(56,673)	530,184

This item reflects trends in stocks of raw materials and consumables used in the construction and maintenance of electrical infrastructure.

OTHER OPERATING COSTS

	31/12/2017	31/12/2016	DIFFERENCE
OTHER OPERATING COSTS			
MISCELLANEOUS COSTS	(200,434)	(169,193)	(31,241)
IMU TAX	(166,585)	(166,024)	(561)
TOSAP/COSAP	(406,656)	(401,769)	(4,887)
CREDIT LOSSES	(278)	-	(278)
COMPENSATION	(3,627)	(10,106)	6,479
CTS/SOCIAL SECURITY FEE	(236,176)	(248,294)	12,118
ENERGY EFFICIENCY CHARGES	(6,215,739)	(10,145,334)	3,929,595
STANDARD CONTINGENT LIABILITIES	(2,243,862)	(611,410)	(1,632,452)
LOSSES FROM STANDARD OPERATIONS	(251,246)	(96,528)	(154,718)
POSTAL CHARGES	(5,649)	(7,599)	1,950
OTHER TAXES	(88,342)	(96,315)	7,973
OTHER OPERATING COSTS	(9,818,594)	(11,952,572)	2,133,978

Other operating costs include the estimate for the purchase of energy efficiency certificates necessary to meet the primary energy savings obligation borne by electricity distributors (6,215,739 euro), as well as sundry taxes and duties of 661,583 euro, charges for the specific tariff

contribution of 236,176 euro and capital losses from disposals of 251,246 euro. Contingent liabilities include 1,884,699 euro for the adjustment of the estimate relating to the cost for the purchase of energy efficiency certificates to meet the obligation for the years 2015 and 2016.

Financial income and charges

OTHER FINANCIAL INCOME

	31/12/2017	31/12/2016	DIFFERENCE
D) FINANCIAL INCOME DIFFERENT FROM ABOVE			
- PARENT COMPANIES			
- OTHER	50,000	50,000	-
OTHER FINANCIAL INCOME	37,845	64,096	(26,251)
ALTRI PROVENTI FINANZIARI	87,845	114,096	(26,251)

Financial income included 50,000 euro in interest income due from the parent company Dolomiti Energia Holding accrued on cash pooling, in

addition to default interest invoiced to end customers of 37,376 euro, down compared to the previous year (62,643 euro in 2016).

INTEREST AND OTHER CHARGES

	31/12/2017	31/12/2016	DIFFERENCE
INTEREST AND OTHER FINANCIAL CHARGES			
D) OTHERS			
INTEREST EXPENSE ON BOND LOAN	(5,067,225)	(5,076,677)	9,452
MANAGEMENT INTEREST	(39)	(27)	(12)
CONTINENT LIABILITIES - INTEREST AND OTHER FINANCIAL CHARGES	-	(20,538)	20,538
INTEREST AND OTHER FINANCIAL CHARGES	(5,067,264)	(5,097,242)	29,978

This item includes primarily interest expense relating to the bullet bond loan of 110,000,000 euro maturing in 2029, more or less unchanged on 2016.

Income taxes for the year

Direct income taxes for the year 2017 amounted to a total of 4,927,832 euro, broken down as follows.

	31/12/2017	31/12/2016	DIFFERENCE
INCOME TAXES FOR THE YEAR			
CURRENT TAXES	(5,484,786)	(5,671,360)	186,574
TAXES FROM PREVIOUS YEARS	(151,999)	146,637	(298,636)
DEFERRED TAXES	193,234	174,428	18,806
PREPAID TAXES	515,719	320,266	195,453
INCOME TAXES FOR THE YEAR	(4,927,832)	(5,030,029)	102,197

Current taxes are assessed on the basis of a realistic forecast of the taxable base for the year, and include IRES of 4,856,117 euro and IRAP of 628,669 euro.

Taxes from previous years represent a higher cost for IRES and IRAP recognised in the 2016 tax return compared to the estimate of the previous year, for a total of 158,576 euro, and include interest income of 6,577 thousand collected due to the IRES refund application for the years 2004/2007.

Deferred taxes are calculated on the timing

differences between the economic result before taxation and the taxable income. Deferred tax liabilities and assets are recognised in the income statement under a specific sub-item of item 20) "Income taxes for the year", with a matching balance under item B.2 "Provisions for taxes" and item C.II. 5 ter) "Prepaid taxes".

Pursuant to Art. 2427 no. 14 a) of the Italian Civil Code, a description is provided of temporary differences resulting in recognition of tax assets and liabilities.

	2016 PREPAID TAXES			2017 REABSORPTIONS			2017 INCREASES			TAXES FOR THE YEAR	2017 PREPAID TAXES		
	TAXABLE AMOUNT	TAX RATE	TAX (A)	TAXABLE AMOUNT	TAX RATE	TAX (B)	TAXABLE AMOUNT	TAX RATE	TAX (C)	D=B+C	TAXABLE AMOUNT	TAX RATE	TAX E=A+D
IRES													
PROVISIONS FOR RISKS	6,804,273	24.00%	1,633,026	-	24.00%	-	-	0.00%	-	-	6,804,273	24.00%	1,633,026
ONE-OFF INCENTIVE BONUS	932,642	24.00%	223,834	(932,642)	24.00%	(223,834)	898,510	24.00%	215,642	(8,192)	898,510	24.00%	215,642
ALLO. WRITE-DOWNS OF RECEIVABLES - EXCESS	4,214	24.00%	1,011	(4,214)	24.00%	(1,011)	32	24.00%	8	(1,003)	32	24.00%	8
AMORTISATION AND DEPRECIATION	14,853,179	24.00%	3,564,763	(68,332)	24.00%	(16,400)	2,982,858	24.00%	715,888	699,488	17,767,705	24.00%	4,264,249
AMORTISATION/DEPRECIATION OF REVALUED ASSETS	7,560,393	24.00%	1,814,494	(542,181)	24.00%	(130,123)	98	24.00%	24	(130,099)	7,018,310	24.00%	1,684,394
GRANTS - CONNECTIONS	78,859	24.00%	18,926	(43,669)	24.00%	(10,481)	-	-	-	(10,481)	35,190	24.00%	8,446
CERTIFICATION AND BOD	46,400	24.00%	11,136	(46,400)	24.00%	(11,136)	13,397	24.00%	3,215	(7,921)	13,397	24.00%	3,215
TOTAL PREPAID TAXES - IRES			7,267,190	(1,637,438)		(392,985)	3,894,895		934,777	541,792	32,537,417		7,808,980
IRAP													
PROVISIONS FOR RISKS	6,319,738	2.98%	188,328	-	2.98%	-	-	2.98%	-	-	6,319,738	2.98%	188,328
ONE-OFF INCENTIVE BONUS	932,642	2.98%	27,793	(932,642)	2.98%	(27,793)	898,510	2.98%	26,776	(1,017)	898,510	2.98%	26,776
AMORTISATION AND DEPRECIATION	1,479,465	2.98%	44,087	(191,831)	2.98%	(5,717)	-	2.98%	-	(5,717)	1,287,634	2.98%	38,372
AMORTISATION/DEPRECIATION OF REVALUED ASSETS	7,441,126	2.98%	221,746	(648,945)	2.98%	(19,339)	-	2.98%	-	(19,339)	6,792,181	2.98%	202,407
GRANTS - CONNECTIONS	308,975	2.98%	9,207	-	2.98%	-	-	2.98%	-	-	308,975	2.98%	9,207
TOTAL PREPAID TAXES - IRAP			491,161	(1,773,418)		(52,849)	898,510		26,776	(26,073)	15,607,038		465,090
TOTAL PREPAID TAXES			7,758,351	(3,410,856)		(445,834)	4,793,405		961,553	515,719	48,144,455		8,274,070

No amounts were credited or charged to equity

	2016 DEFERRED TAXES			2017 REABSORPTIONS			TAX RATE ALIGNMENT			2017 INCREASES			TAXES FOR THE YEAR	2017 DEFERRED TAXES		
	TAXABLE AMOUNT	TAX RATE	TAX (A)	TAXABLE AMOUNT	TAX RATE	TAX (B)	TAXABLE AMOUNT	TAX RATE	TAX (C)	TAXABLE AMOUNT	TAX RATE	TAX (D)	E = B+C+D	TAXABLE AMOUNT	TAX RATE	TAX F = A+E
IRES																
IRES AMORTISATION/DEPRECIATION SURPLUS (SECT. EC)	10,062,973	24.00%	2,415,114	(1,534,534)	24.00%	(368,288)	-	-	-	-	24.00%	-	(368,288)	8,528,439	24.00%	2,046,825
DISCOUNTING OF PLANT-RELATED GRANTS	6,879	24.00%	1,651	-	24.00%	-	-	-	-	5,864	24.00%	1,407	1,407	12,743	24.00%	3,058
DISCOUNTING OF CONNECTION-RELATED GRANTS	1,927,413	24.00%	462,578	(48,471)	24.00%	(11,633)	-	-	-	778,160	24.00%	186,758	175,125	2,657,102	24.00%	637,704
BOND LOAN EXPENSE	28,891	27.50%	7,944	-	24.00%	-	(28,891)	3.50%	(1,011)	-	24.00%	-	(1,011)	28,891	24.00%	6,934
BOND LOAN EXPENSE	3,100	24.00%	744	-	24.00%	-	-	-	-	-	24.00%	-	-	3,100	24.00%	744
TOTAL DEFERRED TAXES - IRES	12,029,256		2,888,031	(1,583,005)		(379,921)	(28,891)		(1,011)	784,024		188,165	(192,767)	11,230,275		2,695,265
IRAP																
IRAP DISCOUNTING OF CONNECTION-RELATED GRANTS	106,540	2.98%	3,175	(15,658)	2.98%	(467)	-	-	-	-	2.98%	-	(467)	90,882	2.98%	2,708
TOTAL DEFERRED TAXES - IRAP	106,540		3,175	(15,658)		(467)	-		-	-		-	(467)	90,882		2,708
TOTAL DEFERRED TAXES	12,135,796		2,891,206	(1,598,663)		(380,388)	(28,891)		(1,011)	784,024		188,165	(193,234)	11,321,157		2,697,973

No amounts were credited or charged to equity

STATEMENTS OF RECONCILIATION BETWEEN BALANCE SHEET AND THEORETICAL TAX CHARGE

DESCRIPTION	AMOUNT	IRES	% CHARGE
PROFIT BEFORE TAX	16,552,864		
THEORETICAL TAX CHARGE		3,972,687	24.00%
PERMANENT INCREASES			
MOTOR VEHICLE COSTS	107,406		
PHONE-RELATED COSTS	25,539		
NON-DEDUCTIBLE AMORTISATION/DEPRECIATION	1,963,033		
LOCAL PROPERTY TAX	166,584		
CONTINGENT LIABILITIES	308,066		
OTHER	16,613		
TOTAL PERMANENT INCREASES	2,587,241		
PERMANENT DECREASES			
SUPPLEMENTARY SOCIAL SECURITY	29,696		
NON-DEDUCTIBLE AMORTISATION/DEPRECIATION	278,880		
LOCAL PROPERTY TAX	33,317		
AID FOR ECONOMIC GROWTH DEDUCTION	685,232		
OTHER	66,988		
TOTAL PERMANENT DECREASES	1,094,113		
TEMPORARY DIFFERENCES - INCREASES - PREPAID TAXES			
DIRECTORS' FEES	13,397		
PRODUCTIVITY AND ONE-OFF BONUS	898,510		
AMORTISATION AND DEPRECIATION	2,242,707		
OTHER	32		
TOTAL TEMPORARY DIFFERENCES - INCREASES	3,154,646		
TEMPORARY DIFFERENCES - DECREASES - PREPAID TAXES			
FINANCIAL STATEMENT CERTIFICATION	36,000		
DIRECTORS' FEES	10,400		
PRODUCTIVITY AND ONE-OFF BONUS	932,642		
AMORTISATION	610,513		
GRANTS - PLANT AND CONNECTION	22,332		
OTHER	2,077		
TOTAL TEMPORARY DIFFERENCES - DECREASES	1,613,964		
TEMPORARY DIFFERENCES - INCREASES - DEFERRED TAXES			
AMORTISATION AND DEPRECIATION	1,118,937		
GRANTS - PLANT AND CONNECTION	48,471		
TOTAL TEMPORARY DIFFERENCES - INCREASES	1,167,408		
TEMPORARY DIFFERENCES - DECREASES - DEFERRED TAXES			
GRANTS - PLANT AND CONNECTION	520,262		
TOTAL TEMPORARY DIFFERENCES - DECREASES	520,262		
TAX BASE	20,233,820	4,856,117	29.34%

DESCRIPTION	AMOUNT	IRAP	% CHARGE
NET PRODUCTION VALUE	38,700,964		
THEORETICAL TAX CHARGE		1,153,289	2.98%
PERMANENT INCREASES			
ESTABLISHED PERSONNEL COSTS	123,911		
NON-DEDUCTIBLE AMORTISATION/DEPRECIATION	1,963,033		
PERSONNEL COSTS	58,021		
STANDARD CONTINGENT LIABILITIES	308,066		
LOCAL PROPERTY TAX	166,584		
FINANCIAL CHARGES	115,500		
OTHER	1,469		
TOTAL PERMANENT INCREASES	2,736,584		
PERMANENT DECREASES			
DEDUCTION OF PERSONNEL COSTS	19,510,985		
OTHER	5,493		
TOTAL PERMANENT DECREASES	19,516,478		
TEMPORARY DIFFERENCES - INCREASES - PREPAID TAXES			
TOTAL TEMPORARY DIFFERENCES - INCREASES	0		
TEMPORARY DIFFERENCES - DECREASES - PREPAID TAXES			
ASSETS CLASSIFIED IN THE "THIRD RAIL" FOR IRAP	840,457		
TOTAL TEMPORARY DIFFERENCES - DECREASES	840,457		
TEMPORARY DIFFERENCES - INCREASES - DEFERRED TAXES			
GRANTS - CONNECTIONS	15,657		
TOTAL TEMPORARY DIFFERENCES - INCREASES	15,657		
TAX BASE	21,096,270	628,669	1.62%

Profit for the year

The profit for 2017 was 11,625,032 euro after tax.

This document, comprising the Balance Sheet, Income Statement, Cash Flow Statement and Notes

to the Financial Statements provide a true and fair view of the equity and financial position and of the economic result for the period, and match compulsory accounting records.

Other information

NAME AND REGISTERED OFFICE OF THE COMPANY THAT DRAFTS THE CONSOLIDATED FINANCIAL STATEMENTS

With reference to the information required by Art. 2427, point 22-quinquies and sexies of the Italian Civil Code, it should be noted that the company Dolomiti Energia Holding SpA, with registered office in Via Manzoni 24 Rovereto (TN), drafts the consolidated financial statements of the Group to which the Company belongs as subsidiary and that said consolidated financial statements are available from the company's registered office, on the company website (www.gruppodolomitienergia.it) and through the usual company channels. In addition, note that the company Findolomiti Energia S.r.l., with registered office in Via Vannetti 18/A Trento, drafts the consolidated financial statements of the larger Group to which the Company belongs and that said consolidated financial statements are available through the usual company channels.

RELATED PARTY TRANSACTIONS

As regards the information required by Art. 2427, of the Italian Civil Code, it should be noted that no transactions were entered into with related parties that were not performed on an arm's length basis. Reference should be made to the Report on operations for details of the relations with other companies in the same Group.

OFF-BALANCE SHEET COMMITMENTS, GUARANTEES GIVEN AND CONTINGENT LIABILITIES

Pursuant to and in accordance with Art. 2427, point 9 of the Italian Civil Code, the following off-balance sheet commitments, guarantees given and contingent liabilities are indicated:

Sureties and collateral securities

The Company has no collateral securities in place that were not recognised in the financial statements. However, bank/insurance sureties have been issued in the interest of SET Distribuzione and in favour of third parties for 3,475,363 euro (3,339,961 euro at 31 December 2016); the parent company Dolomiti Energia

Holding assumed financial commitments in favour of third parties and in the interest of the Company for a total of 3,525,363 euro (3,389,961 euro at 31 December 2016), a part of these to guarantee the issue of bank sureties.

Commitments

The Company did not assume any commitments that were not recognised in the financial statements. Please note that for the Bond Loan issued for a nominal amount of 110,000,000 euro, the Company received a guarantee issued by the Trento Autonomous Province in favour of the banks for 115,500,000 euro, unchanged compared to the previous year.

Contingent liabilities

The Company did not assume any contingent liabilities that were not recognised in the financial statements.

OFF-BALANCE SHEET AGREEMENTS

There are no off-balance sheet agreements, which may significantly impact the Company's equity and financial position and economic result, pursuant to Art. 2427, point 22-ter of the Italian Civil Code.

REVENUE OR COST ITEMS OF EXCEPTIONAL SIZE OR INCIDENCE

Pursuant to Art. 2427, point 13 of the Italian Civil Code, it should be noted that the Company achieved a capital gain of 1,715,210 euro following the sale of business units. For more information, please refer to the notes on Property, plant and equipment.

SIGNIFICANT EVENTS OCCURRED AFTER YEAR-END

With reference to the information required by Article 2427, point 22-quater of the Italian Civil Code, please note the following:

- as of 1 January 2018, the Company acquired ownership of the business unit relating to the electricity distribution service in the area of the Municipality of Isera (TN), consisting of real estate and moveable assets, lines, transport and distribution grids, equipment, devices, plants, machinery and in general all assets used to provide that service. The net acquisition price

was agreed as 1,147,357 euro, to be paid by 2 January 2018;

- as of 14 February 2018, the Company listed the Bond Loan, issued on 1 August 2006, on the Irish Stock Exchange p.l.c. For more information on the characteristics of the loan, please refer to the notes on Bonds.

FEES OF DIRECTORS AND STATUTORY AUDITORS

Information concerning the fees paid to directors and statutory auditors is provided hereunder, pursuant to Art. 2427, point 16 of the Italian Civil Code.

TITLE	FINANCIAL YEAR 2017	FINANCIAL YEAR 2016
DIRECTORS	127,000	127,000
BOARD OF STATUTORY AUDITORS	35,000	35,000

It should be noted that the Company did not grant any advances or loans to directors and statutory auditors.

Furthermore, pursuant to Art. 2427, point 16-bis of the Italian Civil Code, reported below are the

total fees due to the independent auditors for the audit of the annual accounts and the total amount of fees for other tax advisory services and for other non-audit services provided to the Company:

TITLE	FINANCIAL YEAR 2017	FINANCIAL YEAR 2016
STATUTORY AUDIT	26,000	26,000
OTHER VERIFICATION SERVICES	5,000	5,000
TAX ADVISORY SERVICES	-	-
OTHER NON-AUDIT SERVICES	-	-

MANAGEMENT AND COORDINATION ACTIVITIES

Pursuant to Art. 2497-bis, paragraph 4 of the Italian Civil Code, the key data of the latest set of financial

statements of the parent company Dolomiti Energia Holding SpA, which exercises management and coordination activities over SET Distribuzione SpA, are reported below.

DOLOMITI ENERGIA HOLDING SPA

BALANCE SHEET - IFRS
SUMMARY (euro)

SUMMARY		LIABILITIES	
ITEMS	31.12.2016	ITEMS	31.12.2016
NON-CURRENT ASSETS		SHAREHOLDERS' EQUITY	
OTHER INTANGIBLE ASSETS	13,285,706	SHARE CAPITAL	411,496,169
PROPERTY, PLANT AND MACHINERY	48,379,802	RESERVES	43,435,600
EQUITY INVESTMENTS	766,815,323	PROFIT (LOSS) FOR THE YEAR	46,710,985
DEFERRED TAX ASSETS	5,006,640	TOTAL SHAREHOLDERS' EQUITY	501,642,754
OTHER NON-CURRENT ASSETS	9,779,567		
TOTAL NON-CURRENT ASSETS	843,267,038	LIABILITIES	
		NON-CURRENT LIABILITIES	
CURRENT ASSETS		NON-CURRENT PROVISIONS FOR RISKS AND CHARGES	1,495,053
TRADE RECEIVABLES	13,365,357	EMPLOYEE BENEFITS	3,848,912
INVENTORIES	277,372	DEFERRED TAX LIABILITIES	242,198
CASH AND CASH EQUIVALENTS	2,498,445	NON-CURRENT FINANCIAL LIABILITIES	168,705,506
INCOME TAX RECEIVABLES	18,222,668	OTHER NON-CURRENT LIABILITIES	1,087,309
OTHER CURRENT ASSETS	94,574,168	TOTAL NON-CURRENT LIABILITIES	175,378,978
TOTAL CURRENT ASSETS	128,938,010		
		CURRENT LIABILITIES	
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	-	TRADE PAYABLES	11,842,455
		CURRENT FINANCIAL LIABILITIES	262,178,774
		OTHER CURRENT LIABILITIES	21,162,087
		TOTAL CURRENT LIABILITIES	295,183,316
		LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS	-
TOTAL ASSETS	972,205,048	TOT. SHAREHOLDERS' EQUITY AND LIABILITIES	972,205,048

DOLOMITI ENERGIA HOLDING SPA

RECLASSIFIED INCOME STATEMENT
SUMMARY (euro)

ITEMS	FINANCIAL YEAR 2016
REVENUE AND OTHER INCOME	41,315,568
COSTS	(43,938,793)
INCOME AND EXPENSES FROM EQUITY INVESTMENTS	50,814,258
OPERATING PROFIT (LOSS)	48,191,033
FINANCIAL INCOME AND CHARGES	(1,899,324)
PROFIT BEFORE TAX	46,291,709
TAXES	419,276
PROFIT (LOSS) FOR THE YEAR (A) FROM CONTINUING OPERATIONS	46,710,985
DISCONTINUING OPERATIONS	-
PROFIT (LOSS) FOR THE YEAR (B) FROM DISCONTINUING OPERATIONS	-
PROFIT FOR THE YEAR	46,710,985
ITEMS OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT	
ACTUARIAL GAINS/ (LOSSES) FOR EMPLOYEE BENEFITS	39,136
TAX EFFECT ON ACTUARIAL GAINS/ (LOSSES) FOR EMPLOYEE BENEFITS	(11,211)
TOTAL ITEMS OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT	27,925
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	46,738,910

The key data of the parent company Dolomiti Energia Holding SpA shown in the summary table required by Art. 2497-bis of the Italian Civil Code were extracted from the relevant financial statements for the year ended as at 31 December 2016. For an adequate and complete understanding of Dolomiti Energia Holding SpA's equity and financial position as at 31 December 2016, as well as the economic result achieved by the Company in the year ended as at said date, please read the financial statements which, accompanied by the independent auditors' report, are available in accordance with the forms and methods set forth by law.

PROPOSED ALLOCATION OF PROFITS OR LOSS COVERAGE

With reference to the information required by Art. 2427, point 22-septies of the Italian Civil Code, we propose to the Shareholders' Meeting that the profit for the year of 11,625,032 euro be allocated as follows:

- 581,252 euro, i.e. 5%, to the legal reserve;
- 6,734,507 euro as ordinary dividend to shareholders, corresponding to 0.06 euro per share, and also proposing that the dividend be paid from 1 June 2018;
- 4,309,273 euro to the extraordinary reserve.

Rovereto, 9 March 2018

on behalf of the BOARD OF DIRECTORS
The Chairman
Agostino Peroni

Certification of the financial statements

1. The undersigned Peroni Agostino, Chairman of the Board of Directors, and Pedrini Michele, head of Administration of SET Distribuzione SpA, certify, taking into account what is established by regulations in force:

- the adequacy in relation to the characteristics;
- the effective application of the administrative and accounting procedures for the formation of the financial statements from 1 January 2017 to 31 December 2017.

2. In this regard, no particular significant aspects emerged with respect to the effective application of the procedures as well as any reference to the body of general standards used in the preparation of the certification.

3. It is also certified that:

3.1 the financial statements as at 31 December 2017:

- a) were prepared in compliance with Articles 2423 et seq. of the Italian Civil Code and in line with the regulatory amendments introduced by Italian Legislative Decree 139/2015, supplemented by the accounting standards issued by the Italian Accounting Standard Authority (OIC);
- b) correspond to the results set forth in the accounting registers and entries;
- c) are suitable to provide a true and fair view of the profit and loss, income and cash flows of the issuer and the set of consolidated companies.

3.2 The report on operations includes a reliable analysis of operating trends and results, as well as the situation of the issuer and the consolidated companies, along with a description of the main risks and uncertainties to which they are exposed.

Rovereto, 9 March 2018

The Chairman **Agostino Peroni**
Head of Administration **Michele Pedrini**





SET
Distribuzione SpA
–
Report

Board of statutory auditors' report

To the Shareholders' Meeting of
SET Distribuzione SpA

Dear Shareholders,

The Board of Directors reports on the activity carried out by the Company in its Report to the financial statements, in which it also outlines the economic situation and the market environment within which your Company is currently operating.

Please recall that the Board of Statutory Auditors, appointed by the Shareholders' Meeting on 13 April 2017, is responsible for the general management control functions laid out by Art. 2403 of the Italian Civil Code.

Our control activities were inspired by provisions of law and the Code of conduct of the Board of Statutory Auditors issued by the Italian Accounting Profession and were carried out in compliance with the provisions of law, the articles of association and regulations on the matter.

Supervisory activities pursuant to Art. 2403 et seq. of the Italian Civil Code

With reference to our activities, we acknowledge the following in particular:

- we monitored compliance with the law and with the articles of association and respect for the principles of sound administration;
- we participated in the Shareholders' Meetings and the meetings of the Board of Directors in the course of 2017, all held in compliance with the rules of the articles of association, law and regulations, and we can assure that the resolutions passed are compliant with the law and the articles of association and are not clearly imprudent or risky or such so as to compromise the integrity of the company's assets;
- during Board meetings and our periodic audits, we obtained updated information from the Chief Executive Officer and the directors, as well as employees in the various departments, concerning the activity carried out, the results

of operations and foreseeable developments, as well as with respect to the most significant transactions in terms of the income statement, cash flows and the balance sheet and the transactions in which an interest on one's own behalf or on behalf of third parties was identified, and we can reasonably assure that the actions carried out are compliant with the law and the articles of association and are not clearly imprudent or risky or in conflict with the resolutions passed by the Shareholders' Meeting or such so as to compromise the integrity of the company's assets;

- we evaluated and monitored the adequacy and proper functioning of the administrative system, and its reliability in accurately representing operating events, by obtaining information from the various department managers;
- we met with Pricewaterhouse Coopers S.p.A., the company engaged to audit the financial statements, and in this regard we have no particular comments to make as no findings or observations emerged from the verifications of the accuracy of the accounting and the auditing of the financial statements;
- we acquired knowledge and monitored, for matters within our competence, the adequacy and functioning of the company's organisational structure, also in light of the amendments introduced, by gathering information from department managers and in this regard we have no particular observations to report.

Please note that, in the course of 2017 and until today's date, the Board has not received any complaints pursuant to Art. 2408 of the Italian Civil Code.

In 2017, we monitored compliance with the principles on transactions with related parties and in this regard we have no particular observations to report.

With respect to the justified opinions or proposals issued by law by the Board of Statutory Auditors, we note that in 2017 we did not provide any opinions required by law except for what is reported below regarding the recognition of development costs.

Before preparing this Report, as laid out above:

- we met with the independent auditors Pricewaterhouse Coopers S.p.A., responsible for auditing the accounts, and no significant data or information requiring reporting emerged from these meetings;
- we acknowledged the content and outcomes of the activity carried out by the Supervisory Body established pursuant to Italian Legislative Decree 231/01, whose Annual Report was examined during the Board of Directors' meeting held on 9 March 2018.

During the supervisory activities described above, no significant or critical elements requiring reporting herein emerged.

Observations with respect to the financial statements

We examined the financial statements as at 31 December 2017 with respect to which, as the Board is not responsible for analytically checking the content of the financial statements, we report the following:

- we monitored the overall presentation of the financial statements and their general compliance with the law in relation to their format and structure, and in this respect we have no particular comments to make;
- we verified the compliance of the financial statements with the facts and information we became aware of due to our fulfilment of the typical duties of the Board of Statutory Auditors and in this regard, we have no further observations to make;
- we verified that transactions with related parties have been described;
- we verified compliance with the provisions for the preparation of the Report on Operations pursuant to Art. 2428 of the Italian Civil Code;

- it should be noted that no exceptional cases were verified during the year which made it necessary to make use of the exemptions set forth in Art. 2423, paragraph 4 and Art. 2423-bis, paragraph 2 of the Italian Civil Code;
- we expressed our consent to the recognition in the financial statements of development costs, totalling 1,361.00.- euro, reaching agreement with the Directors as regards their amortisation criteria;
- the existence of the item "Goodwill" is acknowledged, which is recognised and amortised in accordance with the legal provisions;
- the criteria used to draft the financial statements for the year ended as at 31 December 2017 do not deviate from those used to prepare the previous year's financial statements, with the exception of "contingent assets", which are classified under item A.5 rather than by nature. The company also reclassified the data relating to the year 2016 for comparison purposes.

The financial statements are compliant with the facts and information we became aware of in fulfilling our control duties and we have no observations in this regard.

Observations and proposals on the approval of the financial statements

With respect to what is laid out above and also taking into account the results of the auditing activities outlined by Pricewaterhouse Coopers S.p.A., the Board of Statutory Auditors expresses its favourable opinion with regard to the approval of the financial statements as at 31 December 2017 as prepared by the Board of Directors, which report a net profit of 11,625,032 euro, as well as with regard to the allocation of the net profit for the year proposed by the Board of Directors.

Trento, 28 March 2018

The Board of Statutory Auditors
William Bonomi, Chairman
Stefano Angeli, Statutory Auditor
Cristina Camanini, Statutory Auditor

Report of the independent auditors



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the shareholders of
SET Distribuzione SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SET Distribuzione SpA (the Company), which comprise the balance sheet as of 31 december 2017, the income statement and statement of cash flows for the year then ended and related notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 december 2017, and of the result of its operations and cash flows for the year then ended in compliance with the Italian laws governing the criteria for their preparation.

Basis for Opinion

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian laws governing the criteria for their preparation and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers SpA

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Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39 of 27 January 2010

Management of SET Distribuzione SpA is responsible for preparing a report on operations of SET Distribuzione SpA as of 31 december 2017, including its consistency with the relevant financial statements and its compliance with the law.

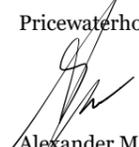
We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of SET Distribuzione SpA as of 31 december 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the financial statements of SET Distribuzione SpA as of 31 december 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39 of 27 January 2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Verona, 28 March 2018

PricewaterhouseCoopers SpA


Alexander Mayr
(Partner)

