



# Consolidated Financial Statements 2017

(Translation from the Italian original which remains the definitive version)

*Vision is the art of seeing  
what is invisible to others.*

Jonathan Swift



 **TOTO**Holding

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## Glossary

**AISCAT** – Italian Association of Toll Motorways and Tunnels Operators

**ANAS** – Azienda Nazionale Autonoma delle Strade, National Autonomous Roads Corporation

**ATI** – Associazione Temporanea d’Impresa, Joint Venture

**AU** – Autorizzazione Unica, Single Authorisation

**ECB** – European Central Bank

**BEL** – Beleolico S.r.l.

**BU** – Business Unit

**CAI** – Compagnia Aerea Italiana S.p.A.

**NIC** – Net Invested Capital

**COGEIN** – Compagnia Generale Investimenti S.r.l.

**CSP** – Concentrated Solar Power

**EPC** - Engineering, Procurement and Construction

**FCG** – Italian Guarantee Scheme

**GRA** – Grande Raccordo Anulare, Rome orbital motorway

**GSE** – Gestore Servizi Energetici, the Italian power authority

**INFRA** – Infraengineering S.r.l.

**MLT** – Medium-/Long-term

**PAC** – Provisional Acceptance Certificate

**PECH** – Parco Eolico Casalduni House S.r.l.

**BP** – Business Plan

**PGS** – Parchi Global Services S.p.A.

**pp** – percentage point

**RENEXIA WIND** - Renexia Wind Offshore S.p.A.

**SAL/SIL** – Work Progress Report/Internal Situation Report

**SDP** – Strada dei Parchi S.p.A.

**SPV** – Special Purpose Vehicle

**TBM** – Tunnel Boring Machine

**TH** – Toto Holding S.p.A.

**TOTO CG** – Toto S.p.A. Costruzioni Generali

**TOTO RE** – Toto Real Estate S.r.l.

# Directors' Report

## Foreword

TOTO Holding S.p.A.'s consolidated financial statements have been prepared in accordance with the Italian GAAP and comprise the consolidated financial statements of the parent, TOTO Holding S.p.A., those of Strada dei Parchi S.p.A., Eurasia S.r.l., Parchi Global Service S.p.A., Infraengineering S.r.l., Toto Real Estate S.p.A., Azienda Aviagricola Abruzzese S.r.l., Renexia S.p.A., US Wind Inc., Med Wind S.a.r.l., Intersun S.r.l., Renexia Services S.r.l., Circello 2 S.r.l., Spartivento S.r.l., Good Wind S.r.l., Calabria Energia S.r.l., Indaco S.r.l., Volere Volare S.r.l., AP FLEET Ltd and the sub-consolidated financial statements of TOTO S.p.A. Costruzioni Generali.

The scope of consolidation underwent a change from 31 December 2016 as a result of:

- the consolidation of Indaco S.r.l. and Volere Volare S.r.l. acquired in October 2017 by Renexia S.p.A.;
- the consolidation of Pontepo Scarl in the sub-consolidated financial statements of TOTO S.p.A. Costruzioni Generali, a consortium company set up in 2017 by Toto S.p.A. Costruzioni Generali (77.73%) and Vezzola S.p.A. (22.27%) to perform the works related to the contract assigned by the Mantua Province ("Ponte sul Po" - Po bridge).

## Company

### TOTO HOLDING S.P.A

Registered office in Viale Abruzzo 410, 66013 Chieti Scalo (Ch)

Share capital € 100,000,000.00 fully paid-up

Company Registration no. 00134410695

REA no. CH-58701

## Corporate Bodies

### BOARD OF DIRECTORS<sup>1</sup>

Paolo Toto	Chairman
Carlo Toto	Director
Valentina Toto	Director
Lelio Scopa	Director
Lino Bergonzi	Managing Director <sup>2</sup>

### BOARD OF STATUTORY AUDITORS<sup>3</sup>

Giovanni Smargiassi	Chairman
Vito Ramundo	Standing auditor
Francesco Cancelli	Standing auditor
Lucio Raimondi	Alternate auditor
Giovanni D'Aquino	Alternate auditor

### INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.<sup>4</sup> Independent auditors

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<sup>1</sup> TOTO Holding's Board of directors was appointed on 29 June 2016. Its term of office expires with the approval of the financial statements at 31 December 2018.

<sup>2</sup> Appointed by the Shareholders in their ordinary meeting of 23 November 2015.

<sup>3</sup> TOTO Holding's Board of statutory auditors was appointed on 22 May 2015. Its term of office expires with the approval of the financial statements at 31 December 2017.

<sup>4</sup> Engagement assigned to PWC S.p.A. for the 2016-2018 period by TOTO Holding's Shareholders in their meeting of 29 June 2016.

## **Activities carried out**

TOTO Holding S.p.A. (TH) is the financial holding company which holds investments in the operating companies of the TOTO Group. It is responsible for policy coordination and guidance of its subsidiaries.

As described in further detail later on in this report, the Toto Group works in a variety of sectors:

- Construction
- Concessions
- Renewable energy
- Services
- Engineering
- Real estate

## Macroeconomic and System Context

### Significant events in 2017

#### The International Economy

Although the pick-up in inflation is still slow, the economy grew considerably in both advanced and emerging economies. In the United States, in the United Kingdom and in Japan, 2017 figures confirmed the growth which points to a widespread increase. In China, Brazil and India, growth remained stable in 2017 and also exceeded expectations in some quarters of the year. The outlook is overall positive despite the risk of a slowdown due to the geopolitical tensions which affect some areas and the uncertainties surrounding the economic policies of other areas. The concerns relate primarily to North Korea and the management of the first stage of the Brexit. In this respect, despite the agreement reached on the first stage of the Brexit, the management of the relationship between the two economies is still surrounded by uncertainties and scepticism. Furthermore, in order to understand the global economic climate, the effects of the North American Free Trade Agreement (NAFTA), signed in 2017, should be considered along with the effects of the tax reform in the United States (passed on 20 December 2017) which, according to many observers, may stimulate global growth.

Growth continued also in the Eurozone at a sustained rate, driven, in particular, by foreign demand. Consumption had only a marginal effect. Inflation remains modest: in the meeting held on 26 October, the Governing Council of the ECB adjusted monetary policy tools and confirmed the need for a high level of monetary easing to enable inflation to permanently return to levels still below but close to 2%.

#### The Italian Economy

In 2017, domestic and foreign demand contributed to the economic growth of the country. In March 2018, ISTAT (the National Institute for Statistics) estimated a 1.5% increase in GDP for the year 2017, the highest increase since 2010 (+1.7%). This figure revises upward the prior estimate based on the average of the four quarters (+1.4%). This speed-up is significant compared to 2016 (+0.9%) as it represents the highest increase since 2010.

Company surveys confirm the return of confidence to pre-recession levels, while consumer surveys show that the recovery which had begun last spring is continuing. With respect to companies, in 2017, the manufacturing business continued to increase. The confidence of companies remained high in all main business segments. According to a survey conducted by the Bank of Italy, companies' perception of demand prospects has further improved with respect to industry and services. Investment conditions are largely favourable.

Households are also more inclined to consume thanks to the confidence which is felt also in Italy, with a decisive stabilisation of savings. Household expenditure rose in particular with respect to durable goods, while the increase in service expenditure remains more modest.

#### Construction Sector

According to Ance-Infoplus (Italy's National Builders' Association) figures, in 2017, public tenders improved compared to the modest levels recorded in the previous year (+6.6% and +33.1% in terms of amount and value,

respectively). However, 2016 was heavily impacted by the coming into force of the new public procurement code which generated significant market uncertainties.

In 2017, the demand for public works returned to the growth levels recorded in the 2014-2015 two-year period. However, figures remain considerably below those of 2011 when they amounted to approximately € 30 billion (2017: € 22 billion).

The outlook for 2018 points to further growth. Indeed, the first figures of the year show an increase in the amounts related to tenders, despite a slight decrease in the number of tenders. Also, in the years to come, the group will continue to pursue its strategy aimed at diversifying the order book, both in Italy - by increasing its customer base, and abroad, by expanding its presence in foreign markets, specifically in Eastern Europe, Northern Europe and the MENA Region.

## Motorway Concessions Sector

December 2017 ended with traffic volumes which generally confirm the favourable trend that had started in the three previous years. Pre-actual annual combined figures show entirely satisfactory increases for both light (+1.8%) and heavy vehicles (+3.5%). Total kilometres covered by a vehicle over the network in the past twelve months approximated € 84 billion.

This figure is extremely favourable if compared to that for 2016, equal to € 82 billion (+2.2%). The figures for the individual period are substantially in line with those for December 2016, net of minor fluctuations and considering – to the extent of the heavy vehicle segment – the higher number of public holidays during the year, where heavy traffic is blocked. With respect to road safety indicators, specifically the monthly period, there were only minimum deviations in absolute values in relation to the main areas of reference, especially considering the small numbers recorded. For example, the mortality rate shows a difference of two units only. The combined data are overall satisfactory in terms of accidents and injured people. Conversely, the increase in the death rate is mainly due to the exceptional nature of some events which marked the year, including, in particular, the bus that went on fire in January on the A4 motorway, killing 16 people. *(Source: Aiscat note no. 12- December 2017)*

## Renewable Energy Sector

In 2017, the purchase price of energy (PUN) on the Day-ahead market (DAM) rose to € 54/MWh, up on the all-time low reached in 2016 and approximating the figures of the 2014-2015 two-year period. The increase in the PUN reflects the rise of the main commodity prices, including, in particular, gas prices, and the recovery of the volumes traded to the highest levels in five years. The liquidity of the DAM hit an all-time high (72.2%), mainly thanks to the further shift to the market of the volumes purchased by the Single Buyer. Sales of gas-fired plants improved, with market volumes hitting the highest levels in six years, approximating 50% of the domestic total on the

DAM. In terms of areas, all sale prices recorded double-digit growth, ranging between € 50/MWh in the South and € 61/MWh in Sicily. The Intra-day market trend remains in line with the PUN and its volumes are below only the all-time high recorded in 2016. With respect to the Electricity forward market, the 2018 annual baseload

ended the trading period at € 54.32/MWh, pointing to stable prices for 2018. Finally, the transactions performed on the Forward Electricity Account Trading Platform (PCE) have been at their lowest since 2012. The Intra-day market trend remains in line with the PUN and its volumes are below only the all-time high recorded in 2016. With respect to the Electricity forward market, the 2018 annual baseload ended the trading period at € 54.32/MWh, pointing to stable prices for 2018. Finally, the transactions performed on the Forward Electricity Account Trading Platform (PCE) have been at their lowest since 2012. *(Source: GME – Newsletter no. 111 January 2018)*

## Business Outlook

In 2018, the group adopted the 2018-2022 New consolidated business plan in which the goals targeting the growth, development and diversification of the strategic business units will be reached mainly by increasing the turnover expected in the new investment plan of the subsidiary SDP.

The New Consolidated Business Plan confirms the strategy of re-focussing on the central role of the group's assets within the Business Units which offer more synergies, i.e., Construction, Concessions and Renewable Energy. The expected growth in size is accompanied by the strengthening of the financial structure where the group's debt comprises lines with medium/long-term expiry dates.

### Construction Business Unit

Due to the considerable size of the order book, also for 2018, the Construction BU can suitably select projects in which it will participate, favouring those of greatest value and those that are the most technologically advanced.

The commercial target is to acquire new orders during the year that are at least equal to the revenues expected for the past few years. The BU will focus its commercial efforts on both the domestic market, which remains the reference market, and promising foreign markets, specifically Eastern and Northern Europe.

Also for 2018, it is believed that the profitability of the contracts will also be in line with the group's historical trend and the sector benchmark for comparable players.

### Concessions Business Unit

The prolonged adverse weather conditions recorded in March, which included heavy snowfalls, resulted in a dramatic drop in traffic which had been particularly dynamic in the first few months of the year, despite the increase in tolls. Consequently, it can be reasonably assumed that, in 2018, as expected in the 2018 budget, traffic will remain substantially in line with that of the previous year.

Updating of the new BP, which began four years ago, is expected to be completed during the year. Therefore, it will be necessary to prepare an addendum to the agreement and redefine SDP's financial structure in order to support the considerable investment plan.

## Energy Business Unit

In 2018, the Energy BU intends to continue developing its portfolio of projects, optimising human, economic and financial resources to support the various SPVs.

Within the framework of its development projects in Italy, the Energy BU intends to exploit the market that has primarily developed in Italy and is attracting institutional investors willing to acquire turnkey projects, once the necessary authorisations have been obtained, even prior to the commencement of works. This is also supported by the new draft of the FER decree which envisages seven new dates to obtain feed-in tariffs between November 2018 and the end of 2020.

Consequently, the Energy BU is considering the possibility of acquiring further wind projects in southern Italy which already have the necessary authorisations. If acquired, these projects should begin and end in the 2018-2019 two-year period.

By the end of 2018, Parco Eolico Casalduni House S.r.l. will participate in the second auction procedure to obtain the feed-in tariffs envisaged by the new ministerial decree which is being issued. The possibility of building the wind park with no feed-in tariff and to sell it on a turn-key basis (also prior to the commencement of works) or to build it and manage it directly is being considered. The overall investment will exceed € 45 million.

The companies involved in the domestic market are Renexia S.p.A. and Renexia Services S.r.l. They identify and develop small and medium-sized projects of the type mentioned above, which can represent sources of funds following the sale of the turnkey project.

The aim of the group is to develop and sell at least one project a year in order to recover investments in development and use surplus liquidity to replicate other operations with the same characteristics.

### Tunisia

The tender in Tunisia which was launched in 2017 was postponed to the second half of 2018. The consortium companies will participate in the new tender which is expected to be completed by the last quarter of 2018 or the first quarter of 2019. If successful, the aim is to start the worksite by the end of 2019.

### United States

In 2018, US Wind will continue activities to complete the authorisation process for the off-shore wind project in Maryland with a potential capacity of approximately 722 MW.

These large projects of great importance in the development of the renewable energy sector in the USA, are extremely attractive to qualified international financial and industrial investors.

In striving to achieve the best balance between investments, profitability and management of sources-uses of funds, the group examines all the partnership proposals it receives and/or other opportunities offered by the market. Top Management will therefore adopt the most appropriate strategies at each stage of the development,

construction and management of projects, which may lead to different solutions (equity partnerships, sale of investments in SPVs upon obtaining building permits, in-house construction of projects, etc.).

## Services Business Unit

Parchi Global Service operates in a somewhat cyclical context, providing routine and extraordinary maintenance services on the motorway section; this should substantially result in a repeat of its performance of 2017, always bearing in mind that certain events are intrinsically unforeseeable, such as work during the winter.

## Other information

On 22 January 2016, Aircraft Purchase Fleet Limited (APFL) lodged a claim for damages amounting to more than 260 million USD against Compagnia Aerea Italiana S.p.A. (CAI) calculated over twelve years starting from 2013 for each of the thirteen leases of aircraft whose purchase did not take place because of CAI's decision. The claim for damages had previously been filed by APFL within the context of arbitration proceedings initiated by CAI against Toto Holding S.p.A. Following the decision declaring the lack of jurisdiction of the board of arbitrators, APFL lodged the claim at the English court. The claim refers to the non-fulfilment by CAI of its obligation under the master agreement signed by APFL and CAI in 2008 to take out leases on 13 A320 aircraft. The surveys to calculate the damage carried out by APFL's consultants (accredited with the High court of justice of London), resulted in a discounted amount, as per the rules of the English court, within a range of approximately between 70 million USD and 120 million USD. The ruling, which was originally expected to be given within 18 months, was postponed by approximately 12 months given the complexity of the case and the poor collaboration of the parties involved, including Alitalia CAI.

The dispute was resolved in January 2018. Despite the positive expectations about its outcome in terms of liability of the counterparty, to date, it is not possible to calculate the damages that the English court will decide to award to the subsidiary APFL.

## Significant Events

### Toto Holding S.p.A.

The Company ("TH") has continued to carry out its technical, administrative and financial management of equity investments.

During the year, it repaid approximately € 7.0 million to Tercas, Caripe and Banca Marche, further reducing its bank indebtedness. At the reporting date, bank indebtedness comprised the last two instalments due to Banca Marche.

In February 2017, the expressions of interests of Mediass S.p.A.'s shareholders about the possible acquisition of the equity investment held therein became true. Indeed, TH owned a minority interest in Mediass S.p.A., an insurance broker, which was sold in March 2017 for a consideration that was deemed fair by TH's directors. This generated a gain of approximately € 363 thousand for the company.

In March, in order to recover efficiency, productivity and strength, the group's reorganisation was completed with Toto Holding S.p.A. regaining the duties typical of holding companies. The process was long and complex since, in addition to the organisational analyses which involved all operating companies, some resources, who were not available within the company, were hired to complete the organisation of the top management positions of Departments (Legal, Administration and control, Finance and financial planning, Human resources and Information systems) to whom the centralised functions for the group were assigned.

On 29 May 2017, the company was served an order to pay (the "**Order to pay**") whereby CAI claimed the payment of € 41,226 thousand related to the conviction expressed by the Board of arbitrators, plus interest (including 2017) and related expenses.

Against this background, given the abnormal claims, the company considered the possibility of agreeing with CAI a payment schedule of the disputed amount in order to avoid the clearly negative and harmful consequences should the order to pay be enforced.

On 2 and 3 August 2017, the company signed a settlement agreement with CAI whereby the parties agreed to a deferred payment plan of the items related to:

1. conviction by the Board of arbitrators of 14/17 February 2017 for breach of the tax statements and guarantees provided in the master agreement in which, in 2008, the company sold its investment in Air One to CAI (€ 41,226 thousand or a liability of € 40,200 thousand plus interest calculated until the date the agreement was signed);
2. conviction for the failure to pay the VAT on the disputes falling under the so-called Identified Dispute, again related to the sale of the equity investment in Air One (€ 7,042 thousand, including the interest calculated on the date the agreement was signed);

3. VAT (the “**VAT on Zuccherificio**”) claimed in respect of ruling no. 421 in which Air One S.p.A. (now a subsidiary of CAI) was challenged in respect of the contribution of the so-called “former zuccherificio” business unit, which forms part of the Identified Dispute (€ 10,275 thousand);
4. the legal fees related to the Identified Dispute (€ 1,200 thousand).

With respect to points 2 and 3, the company resolved the disputes through the so-called “*facilitated agreements*” of pending disputes whereby an agreement is signed with the financial authorities to pay the tax due and related interest, thereby reducing the fines not applied and the interest payable.

During the year, TH regularly met the payment commitments.

**Graph 1 – Group structure (Main business sectors)**



## Concessions BU

### Strada dei Parchi S.p.A.

Main events in 2017:

- Trend of traffic;
- Tolls;
- Urgent securing works (MISU);
- BP.

### Trend of traffic

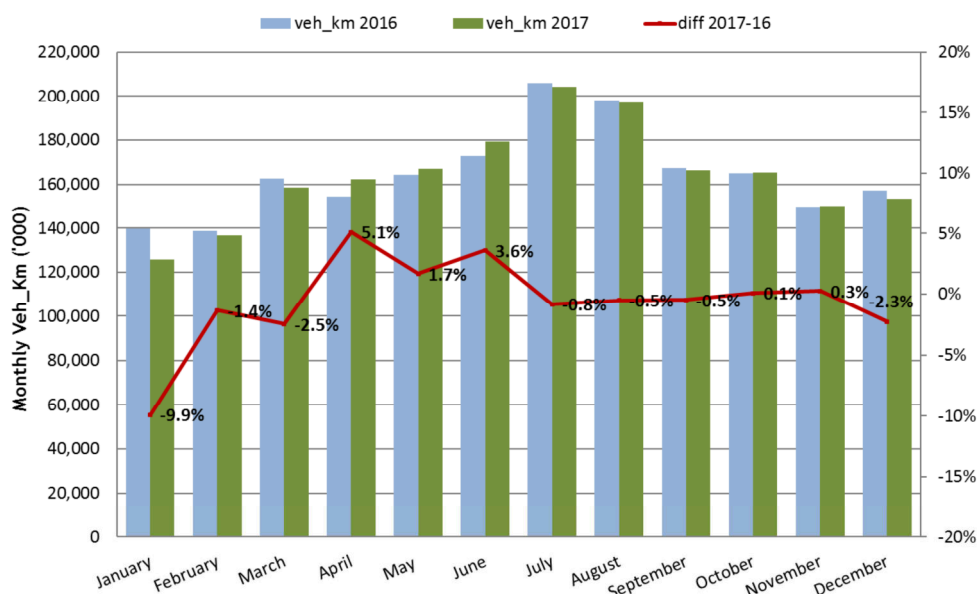
In 2017, light traffic decreased by 0.7% on the previous year, while heavy traffic rose by 1.1%. Overall, traffic fell by 0.5% on 2016.

### A24/A25 traffic by vehicle type 2016-2017 (millions of vehicles/KM)

<i><b>Vehicles</b></i>	<i><b>2016</b></i>	<i><b>2017</b></i>	<i><b>Δ 2017-2016</b></i>
<i>Light</i>	1,697.84	1,685.22	-0.7%
<i>Heavy</i>	277.06	280.24	1.1%
<i><b>Totals</b></i>	<i><b>1,974.90</b></i>	<i><b>1,965.46</b></i>	<i><b>-0.5%</b></i>

SDP's performance is in contrast with the rest of the sector which, in the first eleventh months of 2017, rose by 2.4%. The graph below shows the monthly traffic performance for 2017 compared to 2016. The first half of the year recorded negative changes due to the adverse weather conditions which characterised January and February and the different Easter period (March in 2016 and April in 2017). From April to June, there were some increases, while the second half of the year recorded slightly negative changes, except for October and November, which saw positive changes.

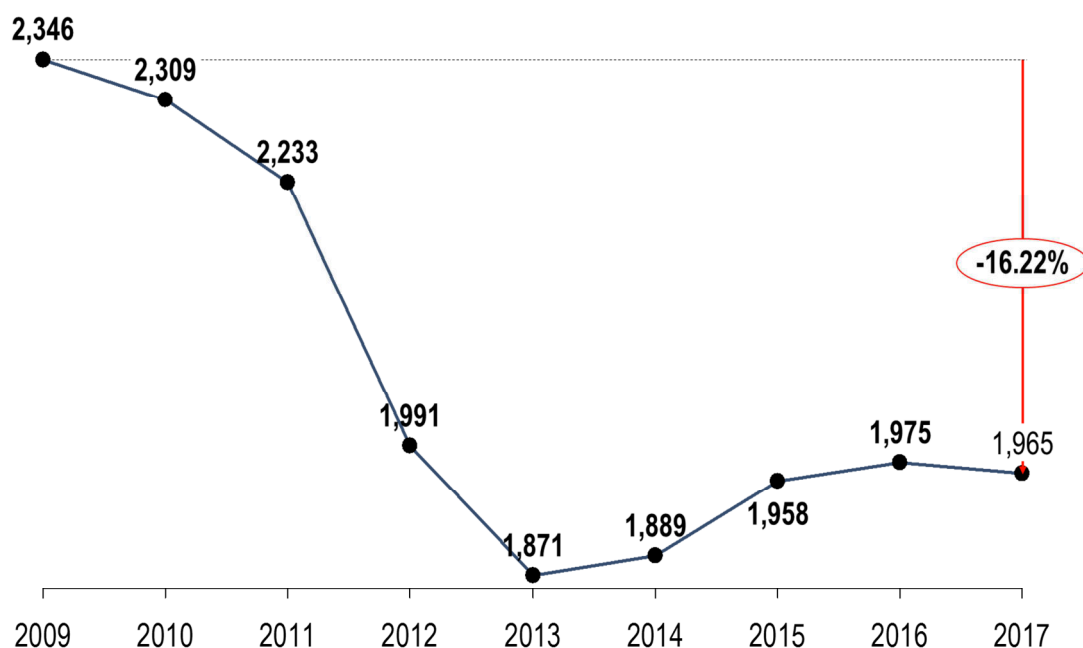
### Total vehicles by month 2016-2017



Traffic in 2017 decreased by 16.3% on 2009 (peak year during the concession period),

as shown in graph 2. After reaching its lowest level in 2013, distances covered have slowly increased since 2014. The growth ceased in 2017.

#### SDP traffic trends 2009/2016 (millions of vehicles/KM)



Traffic historical trends reveal a substantial inelasticity of the traffic with respect to tolls. Conversely, there is a strong relationship with GDP changes. If the positive relationship between traffic and the economic performance is true, then the GDP forecasts included in the table below point to a scenario characterised by a slight recovery of traffic, also in future years. In fact, on a macroeconomic level, the forecasts are generally better than those for the previous years, both in the short-term as well as in the medium-term. Italian GDP is estimated to grow at rates between 0.90% and 1.50% in 2018-2019. From 2020 onward, GDP should grow within a range of 0.85% and 1.00%.

#### GDP Forecast 2017-2027

Year	GDP % change with respect to the previous years			
	Consensus forecast, January 2018	Confindustria Research Centre December 2017	Prometeia, December 2017	IMF October 2017
2017	1.40%	1.50%	1.60%	1.51%
2018	1.40%	1.50%	1.50%	1.12%
2019	1.10%	1.20%	n.d.	0.90%
2020	1.00%	n.d.	n.d.	1.00%
2021	1.00%	n.d.	n.d.	0.94%
2022	1.00%	n.d.	n.d.	0.85%
2023-2027	1.00%	n.d.	n.d.	n.d.

As shown in the table below, the forecast changes in GDP for the Lazio region are greater than the national average, while those for the Abruzzo region are lower.

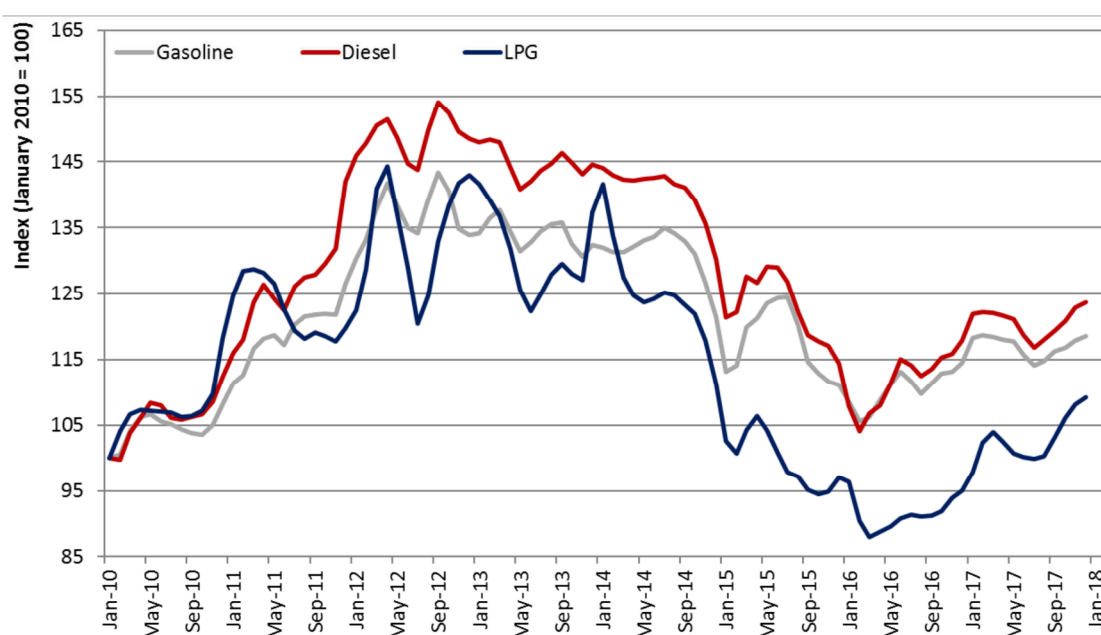
#### GDP 2018-2027 forecast for Lazio and Abruzzo

Year	Italy	Lazio	Abruzzo
2018	<b>1.40%</b>	1.54%	1.18%
2019	<b>1.10%</b>	1.24%	0.88%
2020	<b>1.00%</b>	1.14%	0.78%
2021	<b>1.00%</b>	1.14%	0.78%
2022	<b>1.00%</b>	1.14%	0.78%
2023-2027	<b>1.00%</b>	1.14%	0.78%

Source: Forecast data consensus (January 2018)

In 2017 (table below), the price of fuel rose in the first four months of the year, dropped slightly in July and increased again until year end. In 2017, the price of gasoline and diesel rose by 3.5% and 5.0%, respectively (December 2017 vs. December 2016), while LPG price saw the biggest change, up by over 15% on an annual basis.

#### Changes in the price of fuel (2017)



## Tolls

Starting from 1 January 2017, SDP's tolls increased 1.62% as approved by the Decree of the Ministry of Infrastructure and Transport no. 508 dated 30 December 2016, adopted with the Ministry of the Economy and Finance.

### Toll increases on the A24-A25 network 2009-2017

		Toll class (€/Km)				
Year	Δ%	A	B	3	4	5
2009	0.00%	0.05244	0.05377	0.06187	0.10219	0.12371
2010	4.78%	0.05495	0.05634	0.06483	0.10707	0.12962
2011	8.14%	0.05942	0.06093	0.07011	0.11579	0.14017
2012	8.06%	0.06421	0.06584	0.07576	0.12512	0.15147
2013	7.56%	0.06906	0.07082	0.08149	0.13458	0.16292
2014	8.28%	0.07478	0.07668	0.08824	0.14572	0.17641
2015	1.50%	0.07590	0.07783	0.08956	0.14791	0.17906
2016	3.45%	0.07852	0.08052	0.09265	0.15301	0.18524
<b>2017</b>	<b>1.62%</b>	<b>0.07979</b>	<b>0.08182</b>	<b>0.09415</b>	<b>0.15549</b>	<b>0.18824</b>

In communication no. 17500 of 14 October 2016, SDP informed the Supervisory Body within the Ministry of Infrastructure and Transport of an 11.07% toll increase as of 1 January 2017. The increase covered both the increase calculated in accordance with the method set out in article 15 of the Single Agreement in force and CIPE resolution no. 39/2007 referred therein, and the recovery of the 2015 and 2016 toll increases unfairly denied.

Similarly to the past two years, also in 2017, the Ministry of Infrastructure and Transport and the Ministry of Finance decided to "mitigate" the toll increases for 2017 by issuing Interministerial decree no. 508 dated 30 December 2016 which allowed the operator to increase its tolls by only 1.62%.

SDP was considerably damaged by the above decision and the related Interministerial Decree which was adopted with no discussion with the operator and totally against the terms of the Single Agreement in force and the law applicable to the calculation of toll increases. Consequently, on 12 January 2017, it requested access to MIT – DGVCA deeds. On 14 February 2017, the Ministry made the documentation available. The examination of the documentation obtained revealed that, except for some minor differences, some of which were also debatable, the enquiries made by MIT Supervisory Body in respect of the 2015, 2016 and 2017 toll increases were essentially in line with the requests filed by Strada dei Parchi. Since also Interministerial decree no. 508 was unlawful and against the operator's interests, on 1 February 2017, Strada dei Parchi S.p.A. challenged it before the Lazio Regional Administrative Court (TAR) to obtain annulment (RGN 1291/17), subject to the adoption of the necessary precautionary measures of the ruling. Therefore, three separate appeals were filed, one for each interministerial decree authorising the toll increase for the years 2015, 2016 and 2017.

In the appeal pursuant to article 112 of the Italian Code of administrative procedure made by electronic means on 17 January 2017, SDP requested the implementation of ruling no. 4234 of the Third section of the Lazio TAR,

Rome office, dated 7 April 2016, on the 2015 toll increase. In the hearing dated 8 March 2017 on the appeal against the 2016 toll, the Chairman of the TAR, having acknowledged the company's request for the prompt scheduling of the hearing on the merits related to the above appeal and that related to the 2016 toll increase (3207/16 R.G.N.), in order to obtain an effective ruling before filing the subsequent request for the 2018 toll adjustment and, however, before the beginning of the enquiries by the MIT, reserved the right to issue an additional, separate ruling on the request that the company will file. In the table below, the toll increases requested by SDP for 2015-2016 are compared with those resulting from MIT's<sup>1</sup> enquiries and those authorised by the Interministerial Decree at year end, showing a cumulated difference of 5.47%.

		Requested by SDP <i>A</i>	MIT enquiry <i>B</i>	Awarded by MIT/MEF <i>C</i>	Difference <i>B - C</i>
<b>2015</b>	Target inflation	1.50%	0.60%	1.50%	
	X factor	2.56%	2.56%		
	K variable	4.99%	3.22%		
	Quality factor ( $\beta\Delta Q$ )	0.01%	0.01%		
	<b>Total</b>	<b>9.06%</b>	<b>6.39%</b>	<b>1.50%</b>	<b>4.89%</b>
<b>2016</b>	Target inflation	1.00%	1.00%	0.00%	
	X factor	2.56%	2.56%	0.00%	
	K variable	0.90%	0.23%	0.23%	
	Quality factor ( $\beta\Delta Q$ )	0.24%	0.24%	0.00%	
	Recovery of 2015 toll	7.56%	4.89%	3.22%	
	<b>Total</b>	<b>12.26%</b>	<b>8.92%</b>	<b>3.45%</b>	<b>5.47%</b>

In 2017, the MIT decided to not award the "X<sub>EQUILIBRIO</sub>" factor due for 2017, contrary to 2015 and 2016. Conversely, it deducted the previously awarded 2017 and 2016 "X<sub>EQUILIBRIO</sub>" factor from the calculation.

		Requested by SDP	MIT enquiry
<b>2017</b>	Target inflation	0.90%	0.90%
	K variable 2017	0.15%	0.16%
	Recovery of 2015 difference	1.37%	2.33%
	Recovery of 2016 difference	0.60%	-1.79%
	Quality factor ( $\beta\Delta Q$ )	0.02%	0.02%
	X factor 2017	2.56%	0.00%
	Recovery of 2015-16 toll	5.47%	0.00%
	<b>Total</b>	<b>11.07%</b>	<b>1.62%</b>

The approved toll is 9.45% less than that requested by SDP for 2017, also inclusive of the prior year recovery. If applied, it would have resulted in 2017 revenues greater by € 15,172 thousand. Therefore, similarly to last year, in these financial statements, SDP, also supported by an accounting opinion prepared by an independent expert, assessed the receivable from the grantor as certain, liquid and payable, indicating revenues for a total amount of € 15,172 thousand, which represents the difference between the tolls due on an accruals basis and those instead recognised based on the tolls applied based on the disputed Interministerial Decrees. Interministerial decree no. 615 of 29 December 2017 related to the 2018 toll adjustment substantially allowed the amounts due to SDP.

<sup>1</sup> Enquiries examined when accessing the deeds dated February 2016 and February 2017.

Therefore, the total amount recognised under Other receivables (€ 31,192 thousand) is the sum of the amount due in 2015 (€ 7,459 thousand) and 2016 (€ 8,561 thousand) and that pertaining to 2017 (€ 15,172 thousand).

Ruling no. 8832/2017 was handed down on 28 July 2017 in the compliance proceedings, in which the TAR allowed SDP's appeal, by setting to 30 days the term for the fulfilment of the obligations for the relevant Ministries, while establishing that, in the case of non-compliance, the State accountant general, entrusted with substitute powers, would have identified and appointed, within the organisation, a Commissioner ad acta for the fulfilment of the obligations resulting from the above ruling, replacing the departments. On 30 July 2017, the Grantor filed an appeal with the Council of State to obtain the stay of execution of the above ruling. On 2 August 2017, the Council of State, as a monocratic body, and with Mr. Ravenna as the Judge, allowed the Grantor's appeal, suspending the execution of the obligations set out in the ruling under appeal. On 7 September 2017, the Council of State, as a board, definitively rejected the application for the stay of the ruling under appeal.

After the last ruling, the MIT, having performed the assessments necessary to find the solutions to protect the public interest and the efficiency and cost effectiveness of the proceedings, agreed i) not to include a Commissioner ad acta, ii) to include all toll adjustments in the annual revision procedure for 2018, iii) to resolve all disputes pending for 2015, 2016 and 2017 with respect to all the issues already proven in Court. Consequently, in its letter of 2 October 2017 (no. 17411), the MIT informed the operator that, as part of the 2018 toll adjustment, it was entitled to recover the "X<sub>EQUILIBRIO</sub>" factor, equal to 2.56% p.a. This factor was not recognised in the 2015, 2016 and 2017 toll adjustment. Conversely, with respect to the non-recognition of the toll related to the "K" variable, the latter would have been subject to an in-depth analysis of the individual cost components, during the request for the 2018 toll increase.

On 13 October 2017 (no. 202883), the operator sent MIT a request for upgrading toll charges as of 1 January 2018. The requested percentage is equal to 15.47% and may be analysed as follows:

K INVESTMENTI	1.70%
2018 target inflation	1.70%
X EQUILIBRIO 2018	2.56%
X EQUILIBRIO 2015,16,17	7.68%
K CONVALIDA	1.61%
Quality factor	0.22%
<b>2018 adjustment requested by SdP</b>	<b>15.47%</b>

#### *Urgent securing works (MISU)*

Given the clear extension of the administrative procedure for the revision and update of the BP, since 31 October 2016, the operator, with communication no. 19782, has highlighted the need to urgently implement "*the first safety measures*" for viaducts, financing the works with the amounts, immediately available, to be paid to ANAS S.p.A. as concession fee for 2015 and 2016.

After a series of meetings with the Department for monitoring motorway operators ("DGVCA") within the Ministry of Infrastructure and Transport ("MIT") and having provided said Department with all requested clarifications, on 23 March 2017, the representatives invited to the technical coordination group of the Civil engineering's regional offices, expressed their favourable opinion on the performance of "*Interventions to*

*prevent the shifting of the decks of the viaducts. Intervention variation without modifying the existing bearings and supports".*

In communication no. 6767 of 14 April 2017, the Rome Local inspection office ("UIT") within the Grantor authorised the measures to prevent the shifting of the decks, quantifying, without warning, the amount of said interventions at € 169 million, but without discussing the financial coverage of the authorised interventions. However, the operator decided to begin all activities to award the work and the necessary site activities in the overriding public interest.

In communication no. 8196 of 21 April 2017, also due to the succession of earthquakes that hit central Italy, the operator informed DGVCA and Rome UIT that, *"... in order to ensure users' safety, we will adopt measures that limit road traffic ... on the motorway sections where the above structures are present"*, i.e., the viaducts most at risk.

At the same time, the UIT, in its communication no. 7685 of 3 May 2017, recalled the preliminary procedure completed in communication no. 6767 of 14 April 2017 and urged the operator *"... to promptly commence the procedures necessary to assign the work and the related site activities"* and submitted to *"Department's assessment the possibility of applying the conventional requirements which apply when the applicable provisions of the Grantor are not complied with"*.

The operator promptly replied to the above communication with communication no. 8866 bearing the same date, and, specifically: (i) stated it had assigned the work, with site activities expected to begin *"in the next few days"*; (ii) challenged the lawfulness of the measure no. 6767 of 14 April 2017, to the extent of the section which introduced certain illogical and detrimental prohibitions and limitations *"and did not provide for the related financial coverage"*; (iii) denied all responsibility for hypothetical damage to road safety *"until the funds are identified by the competent authorities"*.

In communication no. 7943 of 5 May 2017, the UIT claimed that, pursuant to Ministerial decree no. 346 of 4 August 2014, it had *"... solely discussed the draft project submitted from a technical point of view"*, explicitly acknowledging that *"... the above communication no. 6767, contrary to that stated by the company, did not include any reference to the financial coverage of the intervention since this aspect is not part of the duties set out in article 7 of Ministerial decree no. 346; indeed, these duties are assigned to another department of the DGVCA"*. It added that *"... the mechanism recalled shall never be considered relevant to the financial coverage in relation to which, when not covered by the Business plan in force, the company shall be specifically authorised"*.

On 11 May 2017, the operator filed an appeal before the Lazio TAR, Rome office, Section I, against ruling no. 4335/17 R.G. to annul, subject to the adoption of the urgent precautionary measures, measure no. 6767 of 14 April 2017, specifically the section where, despite the discussion of the technical intervention, the latter was included in ordinary maintenance under Ministerial decree no. 346/2014. The operator also appealed against any further preliminary, connected or consecutive measures, including the communications no. 7685 dated 3 May 2017 and no. 7943 of 5 May 2017, adopted by the grantor.

The administrative court, at the outcome of the hearing of 7 June 2017, in which the chamber discussed the request to adopt urgent and non-delayable preliminary measures, with Measure no. 2844/2017 Reg. Prov. Cau. published on the same date, in acknowledging the text of article 52 quinquies, approved by the Chamber of deputies when converting Law decree no. 50 of 24 April 2017, (converted into Law no. 96 of 21 June 2017), which, *"considering the need and urgency to ensure the earthquake safety of the A24 and A25 motorways, pending the definition of technical and economic planning tools for the entire infrastructure system"*, provides for the *"suspension of the obligation for the operator to pay the instalments concession fee under article 3, letter c) of the ruling concession, related to 2015 and 2016, each amounting to € 55,860,000, including default interest, pending a plan to approve urgent measures, submitted by the operator within twenty days of the coming into force of the law converting the decree, to the extent of the resources covered by this point, to be approved by 31 August 2017, by the decree of the MIT"*, given the serious risk for road safety following the failure to promptly act against the so-called *"anti-shifting"*, given that the Grantor had discussed and authorised the related interventions without considering the financial coverage, allowed the request for cautionary measure filed by the operator and, as a consequence, ruled that the interventions be financed using the amounts accrued by the operator as deferred concession fees for 2015 and 2016.

Although the legislator confirmed that ANAS S.p.A. was entitled to receiving the deferred concession fees, it appeared before the court against the latter, with a deed electronically filed on 5 July 2017 (R.G.N. 4335/2017) through a voluntary intervention act pursuant to article 28. 1, code of administrative procedure, on the grounds of serious violation of the principle of the right to be heard due to the operator's behaviour during the case. Indeed, as it did not notify the application for first-level hearing, ANAS would have been excluded, preventing it from exercising the right of defence from the prevention action.

Consequently, as it considered itself unsuccessful in the first-level hearing, ANAS S.p.A., with a subsequent deed electronically filed on 7 July 2017, also appealed against measure no. 2844/2017 Reg. Prov. Cau. requesting its full reform, subject to the adoption of urgent precautionary measures, including as a consequence of the above regulation.

The fifth section of the State council, before the court, in its measure no. 3628/2017 Reg.Prov.Cau. issued in the chamber of 8 September 2017, fully rejected the request for cautionary measure filed by ANAS S.p.A. Indeed, it deemed most important, in the public interest, the timely performance of the interventions to ensure the safety of the road infrastructure and that, pending the settlement of the first-level hearing, given the related hearing scheduled for 17 January 2018, it was not necessary to alter the controversial relationship resulting from the precautionary measure issued by the court of first instance.

In communication no. 14309 of 13 July 2017, the operator informed the MIT that, despite the provisions of Law no. 228/2012, the Grantor had not yet approved the BP or considered the integrated plan in relation to the so-called *"anti-shifting"* measures or provided financial coverage for the *"plan of urgent works"*, although it welcomed the fact that *"all possibilities to promptly begin the implementation stage are being considered"*, noting that, with respect to such works, despite two acts of approval (nos. 1293 of 26 January 2017 *"Bussi ramp"*

and 6767 of 14 April 2017 "Interventions to prevent the shifting of the decks of the viaducts"), once again, the operator was forced to file separate administrative appeals to deny the assertion that the current BP would include specific financial coverage such to enable the immediate and full performance of urgent and non-delayable works whose sites were set up only thanks to its sense of responsibility and in the public interest, at least to the extent of the work against the so-called "*anti-shifting*".

The Approval plan prepared using the information provided by the Grantor in communication no. 12250 of 5 July 2017 and to the extent of € 111.72 million, was submitted and, on 5 September 2017, with note no. 15675, the Grantor sent Ministerial decree no. 401 of 9 August 2017 validating the Approval plan. The decree described, inter alia, that in Preliminary report no. 14709 of 7 August 2017, the DGVCA expressed its positive opinion on the validation of the *Approval plan under article 52 quinquies.1 of Law decree no. 50/2017*.

The Court of auditors, upon the completion of the checks over the legitimacy of the MIT's activities in adopting Ministerial decree no. 401 of 9 August 2017, while recording said ministerial measure, accurately observed the following "... *it is noted that, a registration was made, given the urgent need to implement highly urgent safety measures, postponed for too long, considering that, for the works related to the first executive stage, the Approval plan ensures the financial coverage of the measure. Furthermore, the Administration is responsible for completing, as urgently required, the procedures for the approval of the interventions related to the entire infrastructure, necessary to ensure the full safety of the motorway sections in question. Finally, the Administration will also be responsible, in the future, for the quick preparation of the deeds related to the urgent works, drawing as many executive designs as the executive stages to be implemented, so that each stage is approved by a Plan which precisely states the works to be carried out specifically in that stage*".

As the € 111.72 million set out in article 52 quinquies of Law decree no. 50 of 24 April 2017, converted into Law no. 96 of 21 June 2017, was not enough to ensure the complete execution of the works, especially where the M.I.S.U. (urgent safety measures) scheme is included, for a total amount of € 265 million (including the anti-shifting measures), the Legislator, with Law no. 123 of 3 August 2017, converting, with amendments, Law decree no. 91 of 20 June 2017, implementing urgent measures for the economic growth of southern Italy, introduced the following article:

*The following was included after article 16:*

*"Article 16-bis. (Grant for the restoration and to ensure the safety of the A24 and A25 motorway section).*

- 1. With a view to developing the Abruzzo and Lazio regions and to ensure the immediate performance of works to restore and ensure the safety of the A24 and A25 motorway section, as a result of the earthquakes which hit the areas in 2009, 2016 and 2017, a grant of € 50 million is given for each of the years from 2021 to 2025 to the operator Strada dei Parchi S.p.A.*
- 2. The € 50 million charges under article 1 for each of the years from 2021 to 2025, will be obtained by reducing by the corresponding amount the resources of the Fund for Development and Cohesion - 2014-2020 period as per article 1.6 of Law no. 147 of 27 December 2013.*

*3. The amount of the works to restore and ensure the safety authorised by MIT and the grant under this article are included in the update of the operator Strada dei Parchi S.p.A.'s business plan.*

With respect to the works to be carried out to ensure road safety and the restoration of the structures hit by the earthquakes, in the technical report submitted to the Senate as part of the discussion of the above measure, it was stated that "the expected works fall under the following categories: a) anti-shifting; b) viaduct safety; c) landslides; d) seismic upgrading works for strategic buildings; e) river crossing; f) upgrading works for deteriorated piers and that "the works in point a) total € 165 million, while the remaining works amount to a total of € 85 million". With respect to the execution time of works, the same report states that the works in point a) and those to ensure the definitive safety of the Bussi junction viaduct can "begin immediately as the executive design has already been developed. With respect to the residual works, the development of the executive designs should be completed on a very tight schedule, possibly in the next few months, in line with the urgent nature of works".

The appeal to reform Ministerial decree no. 401 of 9 August 2017 was lodged with the Rome section of the Lazio TAR on 6 November 2017. The decree validated, with requirements, the "Approval plan under article 52 quinquies.1 of Law decree no. 50/2017" and the appeal refers to the section in which the Grantor introduced certain illogical, detrimental and unlawful prohibitions and limitations, highlighting that these works are of a provisional nature, but are such to ensure users' safety (as confirmed by the deeds covered by the appeal) and were necessary due to the delay in approving the urgent safety measures plan for the infrastructure 'related' to the BP. Moreover, they are clearly separate from the latter which, however, has to be implemented and covers the full and definitive structure of the viaducts under Law no. 228/2012.

On 15 November 2017, the operator requested the adoption of any suitable precautionary measure, including ordering the relevant Ministry to pay a provisional amount equal to at least the difference between the amount already used, to be drawn from the amount accrued as the consideration for the concession fee for 2015/2016 (€ 111,720,000.00) and that estimated in the measure appealed against (€ 169,456,289.05), in order to enable SDP to promptly continue the works assigned and underway and to avoid the risk of possible road interruptions in the unfortunate event of new earthquakes which may jeopardise traffic or public safety.

With measure no. 06620/2017, Reg. Prov. Cau., published on 7 December 2017, the Lazio TAR acknowledged the prompt performance of works but, however, given the lack of additional funds - indeed the company is unable to obtain bank loans since the new BP has not yet been approved - it noted that it will not be possible to fully perform those related to the so-called "anti-shifting" which, inter alia, were approved and considered as urgent by the defendant. Consequently, it welcomed the reasons envisaged by the company about the need to urgently perform all works necessary to prevent the "shifting" and to order that the Ministry pay a provisional amount at least equal to the difference between the amount already used and that estimated in the measure appealed against to be disbursed within 15 days of the notification of the order, reserving its decision regarding the appointment of a Commissioner ad acta in the event of non-compliance and postponing the discussion of the merits to the hearing of 17 January 2018, where the Board agreed to hear the case.

In its communication no. 23414 of 28 December 2017, the Grantor informed SDP that Department decree no. 23404 of 28 December 2017, submitted to the Central budget office on the same date, introduced the obligation and the concurrent provisional payment of € 57.7 million in accordance with the above TAR measure. The above amount was actually credited on 3 January 2018. Therefore, under article 1.725 of Law no. 205 of 27 December 2017, € 57.7 million is to be paid to SDP in 2018. The relevant amount is to be drawn from the amount accrued pursuant to Law no. 123 of 3 August 2017 (€ 250 million).

## BP

In communication no. 18635 of 8 November 2016, the MIT informed the operator about the main assumptions to be considered when updating the BP, identifying a possible solution which divided the investment plan into two phases so that, downstream the urgent works amounting to € 1.5 billion, the implementation of the residual investments may take place in the next regulatory periods, for a total of € 2.9 billion. Although it did not agree with the MIT's assumptions, on 23 November 2016, SDP sent communication no. 023495 in which, while preliminarily confirming the content and the effects of its prior correspondence about the BP scenarios already described, it included a possible BP reflecting the scenario requested by the Grantor. However, it identified the weaknesses of this scenario from both a financial and technical standpoint.

As it did not obtain any formal feedback from the Grantor, based on the many related verbal reminders to speed up the approval process and the declared discussions with the services of the European Union, the deeds of the procedure to approve the new BU were examined by extracting a copy thereof. Consequently, given the existence of a direct, tangible and legally-relevant interest to be protected, and warning that, should no extension take place on expiry of this period, or in the event of denial or undue postponement, it would have turned to the competent legal authority, the operator, with request no. 8183 of 21 April 2017, requested, in particular, the extrapolation and acquisition of the documentation related to: i) all communications with the services of the European Union; ii) any requests for clarification and the related replies; iii) the documentation related to the transmission and any communication with CIPE (the Interministerial Committee for Economic Planning); iv) any other document related to the preliminary stage; iv) the final proposal, inclusive of the missing elements highlighted in the communication of 23 November 2016.

With communication no. 9232 of 25 May 2017, the MIT transmitted to the operator the deeds, including the related preliminary report sent to CIPE, prepared to analyse the BP sent by SDP on 23 November 2016. The communication also noted that i) the dialogue with the offices of the European Commission is part of the discussion between the EU and the Italian government about the correct application of the EU law. Therefore, access to the documents shall be requested directly to the European Commission in accordance with EC regulation no. 1049/2001, ii) on 14 April 2017, the MIT sent its preliminary investigation into the update of the BP to CIPE to continue the approval process.

On 21 June 2017, the operator met the Competition Directorate-General of the European Commission in Brussels to describe the characteristics of the A24 and A25 motorways and the possible design solutions to ensure the safety of the infrastructures in accordance with Law no. 228/12.

With communication no. 17665 of 5 October 2017, the MIT informed the operator that, based on a first assessment, the Planning and coordination department (DIPE), in its communication of 25 May 2017, asked the MIT to send the findings of the preliminary inquiry into the preliminary check of community compatibility to the European Commission as per Law no. 228/12. With respect to the BP, the DIPE identified two separate operating assumptions which differ according to the amount of the investments and the term of the concession. Therefore, the DIPE asked the MIT, which subsequently transferred the request to SDP as per the above communication, to send a BP in line with the proposal to be submitted to the Committee, specifying how the anti-shifting safety plan is to be included in the Plan.

With respect to the above communication, the MIT, in its communication no. 11159 of 16 June 2017, informed the DIPE about the discussions in progress with the offices of the European Commission and the need to obtain an independent technical opinion on the proposed works. To this end, a request for an opinion was sent to the Supreme Council responsible for overseeing public works, accompanied by detailed technical documentation.

Further to the additional checks performed, the DIPE, in its communication of 29 September 2017, underlined the events that occurred, referring to the facilitating measures introduced by Law decree no. 91 of 20 June 2017 and expressed the need to obtain the opinion of the Supreme Council responsible for overseeing public works which, in turn, is necessary to obtain the opinion of the European Commission.

Despite the regular discussions held with the Grantor, communication no. 175 was received only on 5 January 2018, whereby the MIT provided the following procedural results about the proposed BP submitted by SDP with note no. 23495 dated 23 November 2016. Specifically, with respect to the preliminary procedure, the Grantor confirmed it had submitted the proposed BP via communication no. 15294 of 13 April 2017 for inclusion in CIPE's agenda, subject to obtaining NARS (the public utilities and infrastructures regulation unit) opinion. However, following an initial review, the DIPE made some preliminary evaluations about the documentation obtained and requested additional information about the proposal to be considered, also given the fact that the programme was split into two. In its note of 29 September 2017, the DIPE informed the Grantor about the tests performed and asked, in addition to supplementing the technical annexes, that it be updated about the Higher Council of Public Works' opinion requested by the European Commission. On 13 December 2017, the DIPE informed the MIT and the MEF that, once again, the proposed BP, which included an investment plan worth € 2,971 million, had been further examined by the NARS during the preliminary meeting of 6 December 2017. During the meeting, the NARS identified significant critical issues about sustainability, specifically given the excessive take-over value. Furthermore, the NARS identified some possible alternative solutions to re-balance the situation which must be necessarily examined given the many aspects covered. The scenarios considered also include the possible request for public grants in line with public finance balances and EU legislation. Indeed, NARS "*noted that the relevant Ministry, in collaboration with the Grantor, should consider possible BPs that are in line with regulatory and EU profiles and that meet public finance needs*". The above remarks were subsequently acknowledged by the Ministry during the CIPE's meeting of 22 November 2017.

Based on NARS' preliminary assessments, the situation which resulted from the works performed and the facilitating measures in favour of SDP, according to the Ministry, the proposed update to SDP's BU submitted on 23 November 2016, which included an investment plan worth € 2,971 million, could not be accepted, formally ending the proceedings. Finally, the Ministry reserved the right to convene SDP to discuss the situation, considering NARS' proposed solutions.

In communication no. 404 dated 10 January 2018, the Grantor informed SDP that, in accordance with CIPE's communication dated 22 December 2017, it envisaged the possibility of considering public grants to mitigate the impact on tolls and the take-over value, as proposed and discussed on 9 January 2018 with the Ministry and the Presidents of the Regions of Lazio and Abruzzo. In order to promptly discuss the new BP, a specific work group was set up which met for the first time on 15 January 2018. At the end of the meeting, the Grantor asked SDP to submit additional BP simulations as soon as possible, based on the amount of the investments, after further checking them with Rome UIT, as already envisaged in SDP's communication of 23 November 2016 and amounting to € 2,971 million.

In its note no. 446 of 12 January 2018, SDP confirmed its willingness to consider the Grantor's additional proposals, stressing that the proposed BP submitted on 23 November 2016, currently declared inadmissible, is based on the criteria set by the Ministry in communication no. 18635 of 8 November 2016, which SDP complied with under a spirit-minded approach, raising doubts and uncertainties and, in any case, disagreeing with the criteria set by the Ministry, based on all the reasons described in detail in communication no. 23495 of 23 November 2016.

On 24 January 2018, with communication no. 1126 and on 1 February 2018, SDP submitted the additional simulations of the BP already submitted in November 2016, including the MIT's suggestions of March 2017, based on the criteria discussed in the meeting of 15 January 2018.

## Services BU

The purpose of the Services BU is to operate in the global services provision sector to support the operating activities of the other TOTO group companies. Its formation paved the way for important operating and financial synergies and marked the entry of the group into new sectors with good margins, attractive growth rates and high barriers to entry.

### Parchi Global Service S.p.A.

In 2017, Parchi Global Service aimed to repeat the excellent performance of the previous year. During the year, the company pursued the goal of increasing management efficiency and constantly improving its performance. Most of the activities related to Strada dei Parchi were focused on the A24/A25 recurring ordinary maintenance service contract which was re-assigned to the company for the three-year period underway and until October 2019.

The main activities carried out for Strada dei Parchi include: (i) the "fire-fighting service for the S. Rocco tunnel", provided as part of JV of which the company is the principal. This contract, which expired on 10 December 2016 and was subsequently renewed until 30 November 2017, was eventually renewed until February 2018; (ii) "Painting the tunnel walls", as per the contract signed on 15 February 2017.

Conversely, the contract for the maintenance of traffic signs was terminated.

PGS also agreed, inter alia, contracts with Toto CG as part of the contract for the "Deck anti-shifting works for the A24-A25 motorway", mainly providing worksite mobile signs services.

With respect to the customers other than SDP and TOTO CG, the rental of the thermoplastic sprinkling machine with Autostrade per l'Italia continued regularly.

## Engineering BU

### Infraengineering S.r.l.

The company pursued its business comprised of consultancy, design, work management, assessments of the technical-economic adequacy for public and private works with feasibility studies for customers mainly belonging to the Toto Group, such as the A24-A25 motorway operator SDP, TOTO CG and other group companies operating in the renewable energy sector.

In 2017, the company continued its operations, mainly involving design and work management activities.

In this respect, it focused on the activities covered by the contracts in place with SDP, mainly related to:

- the executive design of the interventions to ensure the safety of the tunnels of the A24/A25 motorway (contract entered into at the end of 2016);
- structures monitoring;
- final executive design, work management, safety coordination during the design of the urgent interventions to upgrade and ensure the safety of the A24/A25 motorway (contract entered into in May 2017);

- assistance with the design of the works covered by the new BP and with the study of the BP;
- other minor activities.

Meanwhile, INFRA provided other group companies with additional services, specifically TOTO CG (design and consultancies for the contracts agreed with third-party bodies and the participation in tenders) and the companies operating in the renewable energy sector.

## Construction BU

### Toto S.p.A. Costruzioni Generali

On 7 March 2017, Toto and Vezzola S.p.A. set up a consortium company called Pontepo Scarl to perform the works related to the contract assigned by the Mantua Province ("Ponte sul Po" - Po bridge). The consortium fund is held as follows: 77.73% Toto S.p.A. and 22.27% Vezzola S.p.A.

On 27 March 2017, the new branch, Toto S.p.A. Costruzioni Generali CZ, odstestepny zavod was registered with the Czech Republic company register. The Branch Manager is Luciano D'Onofrio. The company's decision to set up a branch in this area is the result of the recent acquisition of a contract in the Czech Republic and its willingness to improve the efficiency of the company's actions in this country, where it also intends to participate in additional tenders.

On 4 April 2017, ANAS and the company signed the S.S. Picente - Dorsale Amatrice-Montereale - L'Aquila - Lot IV from the Marana to the Cavallari junctions contract. Upgrading to section C2 of M.D. 05/11/2001. Total amount: € 41.9 million.

On 28 April 2017, TOTO CG and SDP entered into an agreement for the performance of "interventions to prevent the shifting of the decks of the viaducts of the A24 Rome-Teramo and A25 Torano-Pescara motorways" "Anti-shifting"). The works, for a total amount of approximately €154 million, net of a 15% reduction and inclusive of safety costs, were delivered on 6 May and shall be completed no later than within 550 calendar consecutive days. Furthermore, on 8 November 2017, the company, in JV with SELI S.p.A., was at the top of the ranking list of the tender called by COCIV for the performance of civil works and the construction of structures along the line and related works, from pk 19+700,00 to pk 27+455,00 of the HS/HC section of the "Giovi Third Tunnel" - VALICO LOT (RADIMERO). The works total approximately € 189 million. The final contract was signed on 30 January 2018.

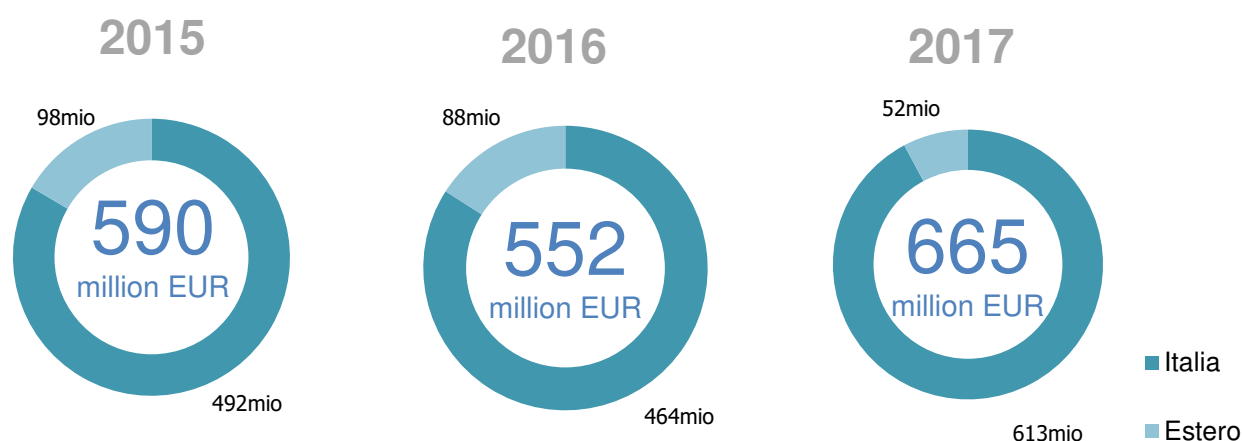
### Order book

At 31 December 2017, the company's order book amounts to € 665 million.

The size of the order book confirms the success of the many commercial actions launched by the company in Italy and abroad and ensures the continuity of operations over the next few years.

The order book can be analysed as follows:

**Graph 2 – Development of the order book of Toto S.p.A. Costruzioni Generali**



Works abroad account for approximately 8% of the order book and are geographically balanced between the works to be performed in Poland and the Czech Republic.

The order book at 31 December 2017 is sufficiently diversified by customer, exposing the company to lower operational risks.

In 2017, TOTO CG's order book includes two new contracts totalling € 264 million. As mentioned above, on 28 April 2017, TOTO CG and SDP entered into an agreement for the performance of "interventions to prevent the shifting of the decks of the viaducts of the A24 Rome-Teramo and A25 Torano-Pescara motorways" for a total of € 154 million.

Furthermore, on 8 November 2017, the company, as the leader of the JV with SELI S.p.A., won the tender called by COCIV for the performance of civil works and the construction of structures along the line and related works, from pk 19+700,00 to pk 27+455,00 of the HS/HC section of the "Giovi Third Tunnel" - VALICO LOT (RADIMERO). The contract was signed on 30 January 2018 and the works are expected to begin in April 2018. They total approximately € 189 million, while Toto S.p.A.'s share is roughly € 110 million.

Again, with the respect to SDP's order book and its development and strengthening, for which TOTO CG acts as the EPC Contractor and performs in-house works, the company is negotiating the new BP, which envisages a major investment plan, with the MIT.

Indeed, in accordance with article 1.183 of Law no. 228/2012, SDP shall ensure the safety of the two motorway sections managed with major investments in the current infrastructure. These works will contribute significantly to TOTO CG's work pipeline for the next few years.

## Energy BU

### Renexia S.p.A.

The company focused its projects on the development of wind power technology, without excluding the possibility of evaluating the implementation of additional plants for the production of energy from alternative renewable sources in Italy or abroad.

## **Projects in Italy**

In 2017, Renexia S.p.A. continued developing its portfolio of projects to support the various SPVs.

On 22 February 2017, the subsidiary Parco Eolico Casalduni House S.r.l. ("**PECH**") obtained the adjustment to the Single Authorisation by means of Executive decree no. 10, resolving a formal error made when the Single Authorisation was first issued.

PECH owns a wind plant made up of 12 3 MW wind generators, with an overall capacity of 36 MW, to be built in the Casalduni (BN) municipality.

Furthermore, on 13 January 2017, PECH requested and obtained the transfer of the Castelpagano-Pontelandolfo power line, through the Campania Region's Executive decree no. 17 of 10 March 2017, in order to construct such structure which, once completed, will be sold to Terna. The power line to be built (P-C 150kV) will enable the Circello wind farm (owned by CoGeln S.r.l. and not by the group) and the future wind farm of PECH to connect to Terna's national transmission grid.

Renexia Services S.r.l., controlled by Renexia S.p.A., is completing the construction of the Circello wind farm, owned by Cogein S.r.l., and is building the above-mentioned 150 kV power line.

On 3 October 2017, Renexia S.p.A. acquired 100% of two companies (Indaco S.r.l. and Volere Volare S.r.l.) which own the connection quotations for the installation of turbines (mini wind turbines) in the Melfi municipality.

## **Projects abroad**

### *Tunisia*

On 15 November 2017, MedWind Sarl (a subsidiary of Renexia S.p.A. based in Tunisia) applied for the granting of a construction permit, inclusive of an incentive tariff blocked for 20 years, for the El Haouaria Ovest wind farm, consisting of 10 turbines for a total of 30 MW.

The tender was postponed to the second half of 2018. The group's consortium companies will participate in the new tender which is expected to be completed by the last quarter of 2018 or the first quarter of 2019. The possibility of participating in another tender, which is expected to be called in September 2018, is being considered.

Furthermore, in 2018, land leases for a total of 20 positions were signed and land for an additional 10 positions was optioned.

### *United States*

Upon completion of its staffing operations, the US subsidiary US Wind Inc. carried out geotechnical and geophysical surveys to obtain the preliminary permits required for the construction of the wind farm, in collaboration with specialised companies.

The US subsidiary delivered the S.A.P. (Site Assessment Plant), approved by B.O.E.M., the grantor, which required a decommissioning bond before the beginning of the installation of the Met Tower.

Furthermore, in May 2017, the Public Service Commission of Maryland granted the company 913,845 MWh/year for twenty years. OREC is a feed-in tariff (USD 166/MWh per OREC) introduced in 2013 by the state of Maryland ("Maryland Offshore Wind Energy Act") to support the production of energy from renewable sources. These large projects of great importance in the development of the renewable energy sector in the USA, are extremely attractive to qualified international financial and industrial investors.

## Financial highlights

### Toto Group

The reclassified consolidated profit and loss account for 2017 is given below:

**Table 1 – Reclassified consolidated profit and loss account**

Profit and loss account <i>In thousands of euro</i>	2017	2016	Change	% Change
Production revenues - Construction BU	144,885	164,246	(19,361)	-12%
Production revenues - Concessions BU	208,536	202,300	6,236	3%
Production revenues - Energy BU	32,754	18,099	14,655	81%
Production revenues - Aviation BU	85	0	85	N.A.
Production revenues - Engineering BU	9,823	14,095	(4,272)	-30%
Production revenues - Services BU	353	168	185	110%
Production revenues - Holding and minor BUs	1,449	2,217	(768)	-35%
<b>Total revenues</b>	<b>397,885</b>	<b>401,125</b>	<b>(3,240)</b>	<b>-1%</b>
Operating costs	260,572	263,499	(2,927)	-1%
<b>EBITDA</b>	<b>137,313</b>	<b>137,626</b>	<b>(313)</b>	<b>0%</b>
<i>EBITDA Margin</i>	<i>34.5%</i>	<i>34.3%</i>	<i>0 pp</i>	
D&A	46,774	70,922	(24,148)	-34%
<b>EBIT</b>	<b>90,539</b>	<b>66,704</b>	<b>23,835</b>	<b>36%</b>
<i>EBIT Margin</i>	<i>22.8%</i>	<i>16.6%</i>	<i>6 pp</i>	
Net financial expense	(68,997)	(71,293)	2,296	-3%
Equity investments and adjustments to financial assets	(21)	(835)	814	-97%
<b>EBT</b>	<b>21,521</b>	<b>(5,424)</b>	<b>26,945</b>	<b>-497%</b>
<i>Margin</i>	<i>5.4%</i>	<i>-1.4%</i>	<i>7 pp</i>	
Income taxes	(13,403)	6,269	(19,672)	-314%
<b>Net profit for the year including the portion attributable to minority interests</b>	<b>8,118</b>	<b>845</b>	<b>7,273</b>	<b>861%</b>
Minority interests in the net profit for the year	3,199	2,981	218	7%
<b>TOTO group net profit (loss) for the year</b>	<b>4,919</b>	<b>(2,136)</b>	<b>7,055</b>	<b>-330%</b>
<i>Margin</i>	<i>1.2%</i>	<i>-0.5%</i>	<i>2 pp</i>	

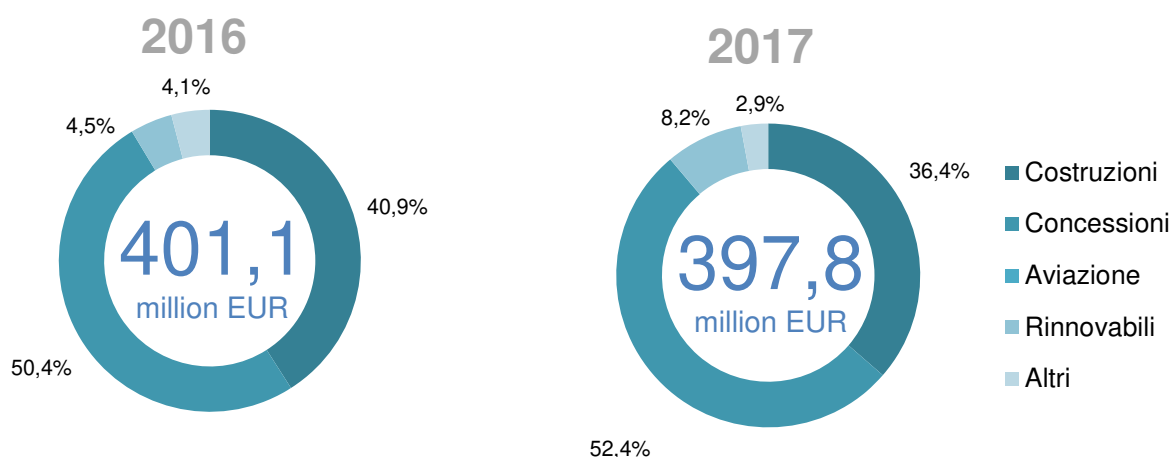
2017 ended with a net profit of € 4.9 million.

Production revenues for 2017 amount to € 397.8 million and are substantially in line with 2016 (€ 401.1 million), slightly down by 1% overall.

The driving BUs are the Concessions (+3%) and Energy (+81%) BUs which substantially managed to offset the decrease in revenues recorded by the Construction (-12%) and the Engineering BUs (-30%).

The percentage impact of the individual BUs compared to consolidated total production revenues is given below.

Graph 3 – Percentage distribution of production revenues by business unit



Revenues trend in percentage terms also impacted costs which fell by 1%, from € 263.4 million to € 260.5 million. The proportional fluctuation of the operating performance resulted in 2017 EBITDA in line with 2016 (€ 137.6 million in 2016 and € 137.3 million in 2017), with an EBITDA<sub>Margin</sub> of 34% for both years.

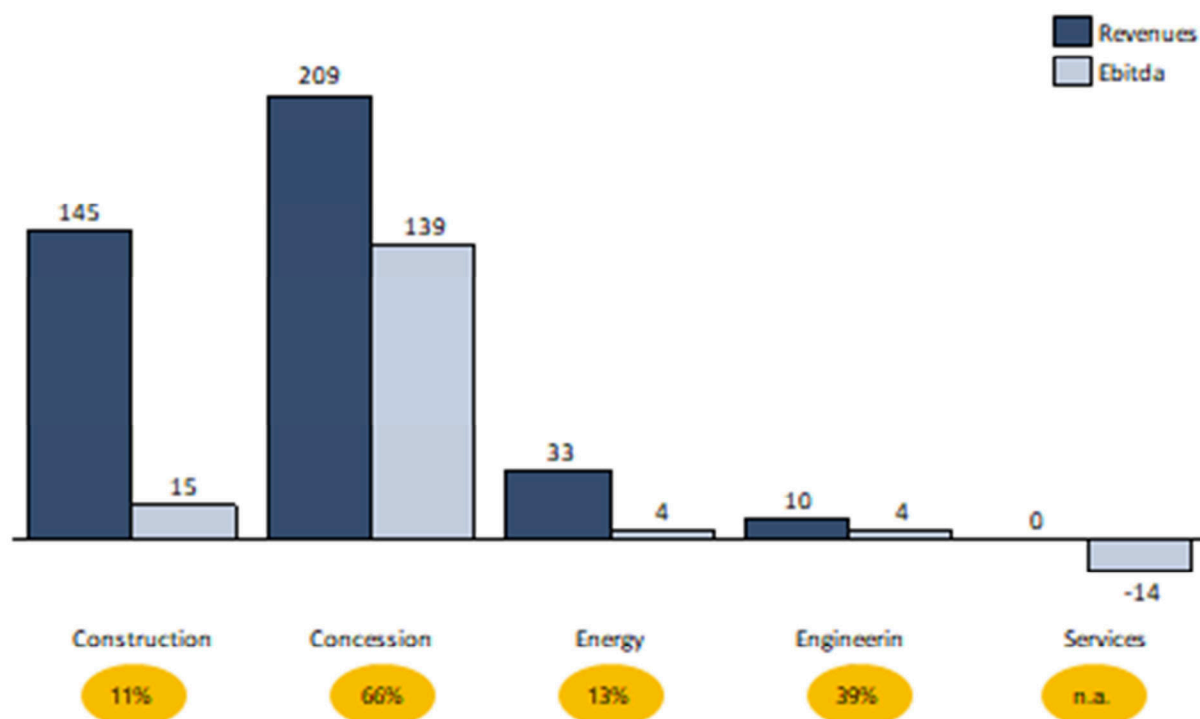
D&A decreased considerably (–€ 24.1 million). The reduction is essentially due to the positive effect of:

- the lack of non-recurring accruals, such as those recognised by TH in 2016 in respect of the settlement agreement signed with CAI, as described earlier. These accruals amounted to € 15.0 million in 2016 and were not recognised in 2017;
- the € 7.8 million decrease in the amortisation recognised in SDP's financial statements following the revision of the relevant rates which, as of these financial statements, are no longer pegged to the amortisation of the payable related to the concession fee, rather that set out in the BP (which provides for variable percentages based on the trend of traffic revenues, net of directly attributable costs and expenses, i.e., the expected gross operating profit margin). The revision was aimed at improving the matching of costs and revenues for the year and resulted in a new distribution of the amortisation cost over the residual term of the concession, focusing more on the future profit and loss accounts, when the financial performance is expected to improve – in line with a mechanism which envisages a normally increasing tariff, thereby releasing the impact of short and medium-term amortisation to the benefit of the profit (loss) for the year.

Graph 4 – Breakdown of EBITDA Margin by business unit

## EBITDA Margin by Business Unit

Main companies by business unit



Carrying amounts, net of dilution entries

2017 EBIT and EBIT<sub>Margin</sub> amount to € 90.5 million and 22.8%, respectively. They increased considerably on the previous year (+ 36% or € 24.8 million) following the reduced impact of amortisation and accruals of the year.

The negative impact of financial expense improved slightly on 2016, from € 71.2 million to € 68.9 million (-3%). This item mainly refers to SDP's financial charges related to the interest on the concession price and the loan for the project underway.

EBT, which does not significantly impact equity investments, amount to € 21.5 million and represent a trend reversal compared to 2016 EBT, which was negative by € 5.4 million.

Finally, deducting the income taxes for 2017 of € 13.4 million, the group posted a net profit for the year including the portion attributable to minority interests of € 8.1 million and, excluding minority interests, of € 4.9 million).

**Table 2 – Reclassified consolidated balance sheet**

Balance sheet <i>In thousands of euro</i>	31/12/2017	31/12/2016	Change	% Change
Total fixed assets	1,348,010	1,273,863	74,147	6%
NWC	113,430	172,258	(58,828)	-34%
<b>NIC</b>	<b>1,461,440</b>	<b>1,446,121</b>	<b>15,319</b>	<b>1%</b>
Provisions	(108,408)	(181,952)	73,544	-40%
Employees' leaving entitlement	(9,941)	(10,461)	520	-5%
<b>Invested capital</b>	<b>1,343,091</b>	<b>1,253,708</b>	<b>89,383</b>	<b>7%</b>
<b>Net equity</b>	<b>143,396</b>	<b>125,810</b>	<b>17,586</b>	<b>14%</b>
Self-liquidating loans	51,986	54,355	(2,369)	-4%
Asset finance	26,468	35,877	(9,409)	-26%
Project finance	488,226	499,669	(11,443)	-2%
Corporate loans	25,321	21,568	3,753	17%
Liquid funds	(69,666)	(133,127)	63,461	-48%
<b>Net financial indebtedness</b>	<b>522,335</b>	<b>478,342</b>	<b>43,993</b>	<b>9%</b>
Payable to ANAS	677,360	649,556	27,804	4%
<b>"Adjusted" net financial indebtedness</b>	<b>1,199,695</b>	<b>1,127,898</b>	<b>71,797</b>	<b>6%</b>
<b>Total coverage</b>	<b>1,343,091</b>	<b>1,253,708</b>	<b>89,383</b>	<b>7%</b>

In 2017, net invested capital increased by approximately € 15.3 million to € 1,461.4 million. The increase in fixed assets (+ € 74.1 million) is mainly due to the urgent safety measures recognised in SDP's financial statements. These investments resulted in an increase in trade payables. Consequently, NWC decreased from € 172.2 million to € 113.4 million.

The significant decrease in provisions (- 73.5 million) is mainly due to:

- TH's use of the provision (€ 50.7 million) following the settlement agreement signed with CAI (2/3 August 2017), whereby the parties agreed the terms to repay the amounts due by TH as per the arbitration board's award of 14/17 February 2017;
- the decrease in the provisions for financial instruments recognised in SDP's financial statements (- € 19.1 million) following the fair value measurement at 31 December 2017 of the derivatives agreed to hedge the interest rates applied to SDP's loans.

Net equity (including the portion attributable to minority interests) amounts to € 143.3 million and is considerably affected by the hedging reserves (of SDP and Toto S.p.A. Costruzioni Generali) (negative impact of € 68.8 thousand). Pursuant to article 2426 of the Italian Civil Code, the net equity reserves that derive from the fair value measurement of the derivatives used to hedge the expected cash flows from another financial instrument or a forecast transaction, are not considered in the calculation of net equity for the purposes set out in articles 2412, 2433, 2442, 2446 and 2447 and, if positive, are not available and cannot be used to cover losses. The € 17.5

million increase in net equity is due to the net profit for the year and, in particular, the change in the fair value of derivatives and the translation reserves on 2016.

The net financial indebtedness ("**NFI**") worsened by € 43.9 million, mainly as a consequence of the use of liquid funds. The payable to ANAS also worsened (+ € 27.8 million). In this respect, in accordance with Law decree no. 50 of 24 April 2017, enacted into Law no. 96 of 21 June 2017, SDP did not pay the concession instalments for the 2015/2016 period. The relevant amounts were used to perform urgent securing works (MISU). This decision is explained in detail in the section on "*Significant events – Concession BU – Urgent safety measures*" to which reference should be made.

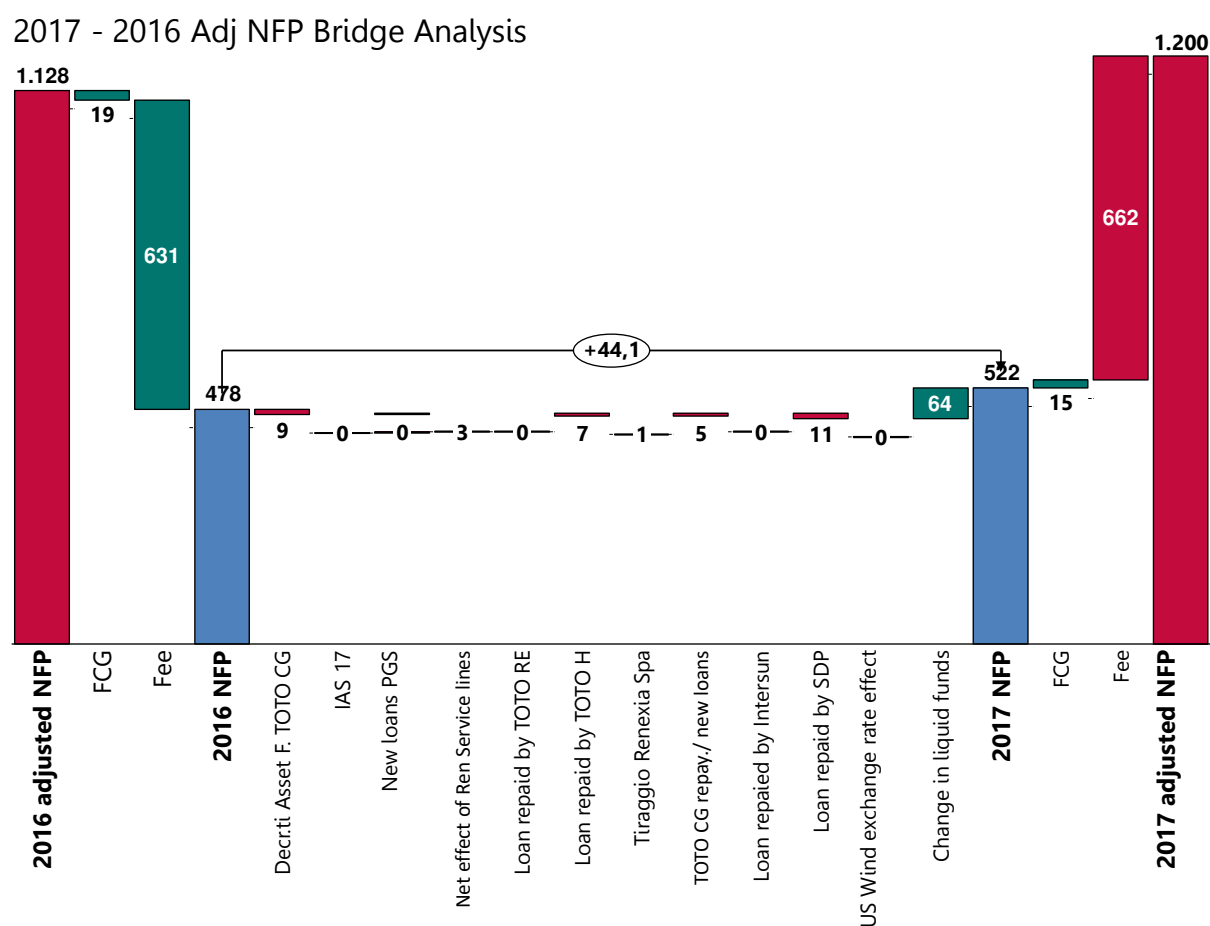
### Net financial indebtedness

Net financial indebtedness (NFI) at 31 December 2017 amounts to € 522.3 million, up by € 43.9 million (+9%) on 31 December 2016. This was due to the repayment and contractual renewals of outstanding credit lines and, in particular, the following ordinary and extraordinary financing transactions:

1. repayment of TOTO Costruzioni's Asset finance loans (€ 9.1 million);
2. decreases caused by the net effect of repayments and the raising of new self-liquidating facilities (approximately € 5.8 million), related to TOTO Costruzioni;
3. repayment of Strada dei Parchi's Project finance loans (€ 11.2 million);
4. repayments by TOTO Holding (approximately € 7.0 million);
5. raising of new self-liquidating lines by Renexia Services (€ 2.6 million);
6. raising of new corporate loans by TOTO Costruzioni (€ 11.0 million);
7. use of the liquid funds of the year (€ 63.3 million).

The calculation of the NFI does not consider the amount due by Strada dei Parchi S.p.A. to the grantor for the concession fee (€ 662.1 million) and the loan of the former operator (SARA S.p.A.) owed to the former Italian Guarantee Scheme (€ 15.2 million). These payables were assumed by Strada dei Parchi S.p.A. in accordance with the new Single Agreement. The effect of these payables on the NFI has been neutralised since they are no recourse loans. Indeed, they are secured by means of the grantor assuming responsibility for the same in the event of withdrawal, cancellation and/or advance termination of the agreement.

Graph 5 – Bridge analysis on the development of the 2016 – 2017 NFI



#### Focus on the payables due to the grantor and FCG

In 2001, the year in which the international tender for the construction, maintenance and operation of the A24 and A25 motorways was awarded, the joint venture between Autostrade per l'Italia (60%) and TOTO Holding S.p.A. (40%) undertook to pay the grantor a fee of around € 748.8 million for the agreement. According to the Single Agreement, this fee must be paid during the concession in equal instalments totalling around € 55.8 million per year including deferral interest. Despite accruing interest, this payable should strictly be regarded as a trade payable since, under the Single Agreement which governs relations with the Grantor, it is established that, in the event of withdrawal, cancellation and/or early termination of the Agreement, the Grantor shall only take over from the operator if compensation is paid to the operator in line with the residual amortisable value of the regulatory asset base (including, therefore, the price of the concession). Since the regulatory asset base exceeds the payable to the grantor, the compensation would fully cover the liability, recognising the positive investment difference and qualifying the payable as a "no recourse" payable. In addition, the concession regime under which Strada dei Parchi S.p.A. is required to pay for a concession fee is unique in the sector. In fact, other operators benefit from a purchase fee of zero against a commitment to carry out maintenance and investments, avoiding the recognition of this commitment under balance sheet liabilities, disclosing it solely in the memorandum accounts. Furthermore, the banks forming part of the banking syndicate which finances the Project Finance Loan

(no recourse) of € 570.5 million did not consider the amount due to the grantor in calculating the project's financial leverage.

**Table 2 – Breakdown of payables to the Grantor and former FCG**

ANAS/FCG payables by due date <i>in thousands of euro</i>	Until cancellation	Within 12 months	Between 12 and 60 months	Over 60 months	Total
Payable to ANAS	0	59,422	133,090	484,849	677,360

#### Movements in NFI by nature

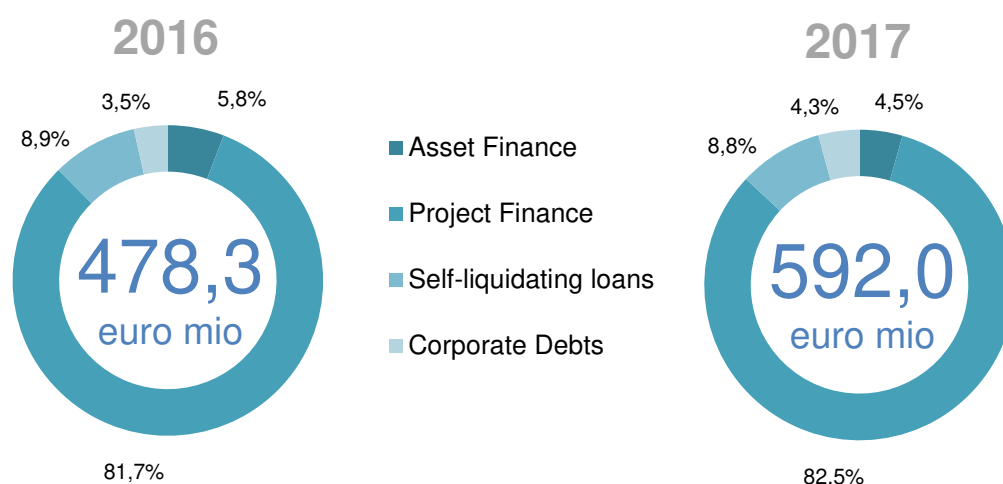
The analysis of changes in indebtedness by nature shows how the statement of sources of coverage for the group is mixed and varied. The following facts emerge from the analysis:

- Payables based on collateral on owned assets under Asset Finance schemes went from € 35.8 million in 2016 to € 26.4 million in 2017 with a 26% decrease principally due to the characteristic and ordinary trends in debt repayment relative to TOTO GC and TOTO RE;
- The structured payables under Project Finance (no recourse) schemes went from € 499.6 million to € 488.2 million. The decrease is due to the repayments of the year by SDP and Intersun;
- Self-liquidating loans amounting to € 51.9 million, down by approximately € 2.3 million compared to the amount recognised in December 2016. The decrease is the direct effect of the natural evolution of the contracts of the Construction BU and Renexia Services (the latter to a residual extent);
- Corporate loans amounting to € 25.3 million, up by 17% on 2016 (€ 21.5 million).

**Table 3 – Breakdown of financial payables by nature**

NFI by Nature <i>in thousands of euro</i>	31/12/2017	31/12/2016	Change	% Change
Asset finance	26,468	35,877	(9,409)	-26%
Project finance	488,226	499,669	(11,443)	-2%
Self-liquidating loans	51,986	54,355	(2,369)	-4%
Corporate loans	25,321	21,568	3,753	17%
<b>Total</b>	<b>592,001</b>	<b>611,469</b>	<b>(19,468)</b>	<b>-3%</b>
Liquid funds	(68,854)	(132,102)	63,248	-48%
Current assets	(812)	(1,025)	213	-21%
<b>Total</b>	<b>(69,666)</b>	<b>(133,127)</b>	<b>63,461</b>	<b>-48%</b>
<b>Net financial indebtedness</b>	<b>522,335</b>	<b>478,342</b>	<b>43,993</b>	<b>9%</b>

Graph 6 – Breakdown of financial liabilities by nature



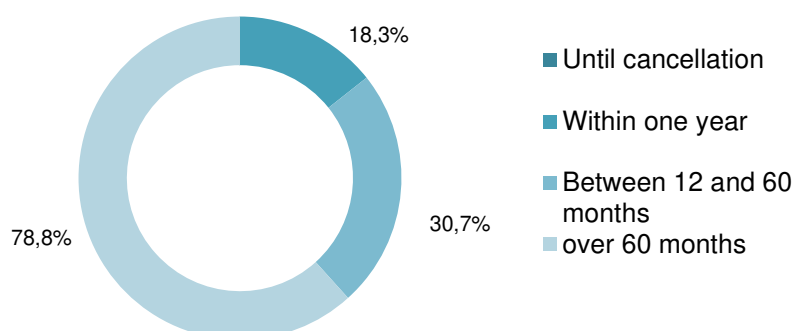
#### Analysis of NFI by due date

The analysis of net financial indebtedness by due date shows that 56.5 % of financial liabilities is due after 5 years. The € 11.3 million of asset financing due within one year includes the principal to be repaid within 12 months of loans and financing on assets such as those for the Martina TBM. The € 29.1 million self-liquidating loans falling due within 12 months are instruments used to receive advances of cash flows and automatically renewed on their expiry dates or for advances on new invoices/SAL/SIL and/or advances on new contracts awarded and/or claims recorded. The € 23.2 million corporate loans falling due within one year essentially relate to Toto CG's bank current accounts. Indeed, during the year, TH repaid all its corporate loans, except for a residual portion at 31 December, which was repaid in early 2018.

Table 4 – Breakdown of 2017 financial liabilities by nature and due date

NFI by due date <i>in thousands of euro</i>	Until cancellation	Within one year	Between 12 and 60 months	Over 60 months	Total
Asset finance	0	11,328	13,733	1,407	26,468
Project finance	0	18,872	136,007	333,347	488,226
Self-liquidating loans	0	29,120	22,866	0	51,986
Corporate loans	16	23,220	2,085	0	25,321
<b>Total</b>	<b>16</b>	<b>82,540</b>	<b>174,691</b>	<b>334,754</b>	<b>592,001</b>
Liquid funds					(68,854)
Current assets					(812)
<b>Total</b>					<b>(69,666)</b>
<b>Net financial indebtedness</b>	<b>16</b>	<b>82,540</b>	<b>174,691</b>	<b>334,754</b>	<b>522,335</b>

Graph 7 – Breakdown of 2017 financial liabilities by due date



## Performance of the main group companies

### Construction Business Unit

#### TOTO S.p.A. Costruzioni Generali (Sub-consolidated)

**Table 5 – Reclassified profit and loss account of TOTO S.p.A. Costruzioni Generali (Sub-consolidated)**

Profit and loss account <i>In thousands of euro</i>	2017	2016	Change	% Change
Production revenues	149,974	166,479	(16,505)	-10%
Operating costs	134,819	158,577	(23,758)	-15%
<b>EBITDA</b>	<b>15,155</b>	<b>7,902</b>	<b>7,253</b>	<b>92%</b>
<i>EBITDA Margin</i>	<i>10%</i>	<i>5%</i>	<i>5 pp</i>	
D&A	6,872	6,029	843	14%
<b>EBIT</b>	<b>8,283</b>	<b>1,873</b>	<b>6,410</b>	<b>342%</b>
<i>EBIT Margin</i>	<i>6%</i>	<i>1%</i>	<i>4 pp</i>	
Net financial expense	(5,453)	(6,203)	750	-12%
<b>EBT</b>	<b>2,830</b>	<b>(4,330)</b>	<b>7,160</b>	<b>-165%</b>
<i>Margin</i>	<i>2%</i>	<i>-3%</i>	<i>4 pp</i>	
Income taxes	(2,618)	(47)	(2,571)	5470%
<b>Net profit (loss)</b>	<b>212</b>	<b>(4,377)</b>	<b>4,589</b>	<b>-105%</b>
<i>Margin</i>	<i>0%</i>	<i>-3%</i>	<i>3 pp</i>	

Production revenues amount to € 149.9 million, down 10% on € 166.4 million of 2016. The decrease is mainly due to the halt of the La Spezia contract in February, for reasons not attributable to the BU, and the slowdown in the CAS project.

EBITDA and the Ebitda Margin are equal to € 15.1 million and 10%, respectively. They rose significantly on 2016 (€ 7.9 million).

Net financial expense had a negative effect on the net profit for the year for a total of approximately € 5.4 million.

2017 substantially broke even with a profit of € 0.2 million.

**Table 6 – Reclassified balance sheet of TOTO S.p.A. Costruzioni Generali (Sub-consolidated)**

Balance Sheet <i>In thousands of euro</i>	31/12/2017	31/12/2016	Change	% Change
Total fixed assets	91,673	92,258	(585)	-1%
NWC	37,492	57,052	(19,560)	-34%
<b>NIC</b>	<b>129,165</b>	<b>149,310</b>	<b>(20,145)</b>	<b>-13%</b>
Provisions	(3,215)	(4,391)	1,176	-27%
Employees' leaving entitlement	(662)	(883)	221	-25%
<b>Invested capital</b>	<b>125,288</b>	<b>144,036</b>	<b>(18,748)</b>	<b>-13%</b>
<b>Net equity</b>	<b>70,641</b>	<b>70,761</b>	<b>(120)</b>	<b>0%</b>
<b>Net financial indebtedness</b>	<b>54,647</b>	<b>73,275</b>	<b>(18,628)</b>	<b>-25%</b>
Payable to the grantor	0	0	0	N.A.
<b>"Adjusted" net financial indebtedness</b>	<b>54,647</b>	<b>73,275</b>	<b>(18,628)</b>	<b>-25%</b>
<b>Total coverage</b>	<b>125,288</b>	<b>144,036</b>	<b>(18,748)</b>	<b>-13%</b>

The net invested capital of the Construction BU decreased by 13% from € 149.3 million at 31 December 2016 to € 129.1 million at 31 December 2017. The decrease in NWC (- € 19.5 million) is mainly due to an increase in the BU's payables, specifically in trade payables.

Net equity is substantially unchanged compared to 31 December 2016.

Net financial indebtedness improved by € 18.6 million to € 54.6 million. The following items form part of the net financial indebtedness:

- advances on contracts, progress reports and claims amounting to € 46.0 million;
- asset financing mainly pertaining to leased assets and the "Martina" boring machine amounting to € 24.9 million;
- corporate loans of € 22.8 million;
- financial receivables from the parent and related companies of € 37.4 million;
- liquid funds of approximately € 1.8 million.

**Table 7 – Strada dei Parchi S.p.A. reclassified profit and loss account**

Profit and loss account <i>In thousands of euro</i>	2017	2016	Change	% Change
Production revenues	208,598	202,409	6,189	3%
Operating costs	96,986	88,473	8,513	10%
<b>EBITDA</b> <i>EBITDA Margin</i>	<b>111,612</b> <i>54%</i>	<b>113,936</b> <i>56%</i>	<b>(2,324)</b> <i>-3 pp</i>	<b>-2%</b>
D&A	35,247	42,343	(7,096)	-17%
<b>EBIT</b> <i>EBIT Margin</i>	<b>76,365</b> <i>37%</i>	<b>71,593</b> <i>35%</i>	<b>4,772</b> <i>1 pp</i>	<b>7%</b>
Net financial expense	(69,785)	(70,805)	1,020	-1%
<b>EBT</b> <i>Margin</i>	<b>6,580</b> <i>3%</i>	<b>788</b> <i>0%</i>	<b>5,792</b> <i>3 pp</i>	<b>735%</b>
Income taxes	(4,615)	(3,512)	(1,103)	31%
<b>Net profit (loss)</b> <i>Margin</i>	<b>1,965</b> <i>1%</i>	<b>(2,724)</b> <i>-1%</i>	<b>4,689</b> <i>2 pp</i>	<b>-172%</b>

In 2017, motorway traffic decreased slightly by 0.53% on 2016. This performance is below that of the sector (for example, in September 2017, ASPI recorded a 2.3% increase) and confirms that the crisis that hit the economy of the areas crossed by the A24/A25 motorways shows no signs of improvement, negatively affecting traffic trends. Furthermore, the situation is worsened by heavy snowfalls (approximately + 42% on 2016).

Net of the traffic effect, revenues from tolls rose solely as a result of the application of the annual tariff increase (+1.62% applied by SDP as of 1 January 2017). Similarly to 2016, following the non-recognition of the relevant toll increase, SDP's revenues from the recovery of the non-recognition of toll increases for 2017 amount to € 15.2 million (2016: € 16.0 million). Indeed, the Interministerial decree approving 2017 toll increases reduced considerably the tolls compared to those due based on current legislation and the concession agreement. This worsened the financial performance for the year. SDP felt it had been considerably damaged by the above decree. Consequently, similarly to the decrees for toll increases for 2015 and 2016, in 2017, it filed an appeal with the TAR.

Based on the favourable decisions received in 2016 and 2017, SDP recognised revenues on an accruals basis, multiplying the actual traffic for 2017 by the toll difference, being the toll acknowledged at year end by the ministerial decrees and that due under the agreement and definitively paid pursuant to Ministerial decree no. 615 of 29 December 2017.

The heavy snowfalls described earlier worsened operating costs (with respect to the purchase of salt and the provision of services related to winter operations), which decreased by € 8.5 million on 2016.

Amortisation decreased by € 7.8 million following the revision of the rates which, as of these financial statements, are no longer pegged to the amortisation of the payable related to the concession fee, rather that set out in the BP (which provides for variable percentages based on the trend of traffic revenues, net of directly attributable costs and expenses, i.e., the expected gross operating profit margin). The revision was aimed at improving the matching of costs and revenues for the year and resulted in a new distribution of the amortisation cost over the residual term of the concession, focusing more on the future profit and loss accounts, when the financial performance is expected to improve – in line with a mechanism which envisages a normally increasing toll, thereby releasing the impact of short and medium-term amortisation to the benefit of the profit (loss) for the year.

2017 EBT amounts to € 6.5 million, up considerably on the previous year (€ 0.7 million). Taxes had a negative impact in 2017 (€ 4.6 million) and generated a net profit of € 1.9 million. This is a significant change in trend compared to the net loss recorded in 2016 (€ 2.7 million).

**Table 8 – Strada dei Parchi S.p.A. reclassified balance sheet**

Balance sheet <i>In thousands of euro</i>	31/12/2017	31/12/2016	Change	% Change
Total fixed assets	1,176,996	1,099,424	77,572	7%
NWC	(8,755)	1,013	(9,768)	-964%
<b>NIC</b>	<b>1,168,241</b>	<b>1,100,437</b>	<b>67,804</b>	<b>6%</b>
Provisions	(100,950)	(122,724)	21,774	-18%
Employees' leaving entitlement	(8,123)	(8,738)	615	-7%
<b>Invested capital</b>	<b>1,059,168</b>	<b>968,975</b>	<b>90,193</b>	<b>9%</b>
<b>Net deficit</b>	<b>(36,295)</b>	<b>(52,796)</b>	<b>16,501</b>	<b>-31%</b>
<b>Net financial position</b>	<b>418,103</b>	<b>372,215</b>	<b>45,888</b>	<b>12%</b>
Payable to the grantor	677,360	649,556	27,804	4%
<b>"Adjusted" net financial position</b>	<b>1,095,463</b>	<b>1,021,771</b>	<b>73,692</b>	<b>7%</b>
<b>Total coverage</b>	<b>1,059,168</b>	<b>968,975</b>	<b>90,193</b>	<b>9%</b>

Fixed assets increased as a consequence of the above-mentioned urgent safety measures, up from € 1,099.4 million to € 1,176.9 million. These investments also led to an increase in trade payables and, consequently, a € 9.7 million reduction in NWC.

Net deficit amounting to € 36.2 million improved as a result of the net profit for the year and, above all, the reserve for the fair value of financial instruments. SPD's net deficit is due to the recognition of the hedging reserve which amounts to a negative € 68.7 million. Pursuant to article 2426 of the Italian Civil Code, the net equity reserves that derive from the fair value measurement of the derivatives used to hedge the expected cash flows of another financial instrument or a forecast transaction, are not considered in the calculation of net equity for the purposes set out in articles 2412, 2433, 2442, 2446 and 2447 and, if positive, are not available and cannot be used to cover losses.

The "adjusted" net financial position went from €1,021.7 million at 31 December 2016 to € 1,095.4 million at 31 December 2017. The increase is due to the deferral of the two instalments of the concession price due to ANAS S.p.A. (for a total of € 111.7 million), pursuant to article 52-quinquies.1 of Law decree no. 50/17. This law decree defers payments of the instalments of the concession fee for 2015 and 2016 to 2028-2030. Legal interest accrues thereon. Finally, the decrease in liquid funds is due to the investments of the year.

## Energy Business Unit

The profit and loss account of the BU's operating company, Renexia Services S.r.l., which carries out the EPC contractor activities of the same BU is shown below.

### Renexia Services S.r.l.

**Table 9 – Renexia Services S.r.l. reclassified profit and loss account**

Profit and loss account <i>In thousands of euro</i>	2017	2016	Change	% Change
Production revenues	31,034	16,647	14,387	86%
Operating costs	24,168	12,772	11,396	89%
<b>EBITDA</b>	<b>6,866</b>	<b>3,875</b>	<b>2,991</b>	<b>77%</b>
<i>EBITDA Margin</i>	<i>22%</i>	<i>23%</i>	<i>-1 pp</i>	
D&A	4	2	2	100%
<b>EBIT</b>	<b>6,862</b>	<b>3,873</b>	<b>2,989</b>	<b>77%</b>
<i>EBIT Margin</i>	<i>22%</i>	<i>23%</i>	<i>-1 pp</i>	
Net financial expense	(212)	(81)	(131)	162%
<b>EBT</b>	<b>6,650</b>	<b>3,792</b>	<b>2,858</b>	<b>75%</b>
<i>Margin</i>	<i>21%</i>	<i>23%</i>	<i>-1 pp</i>	
Income taxes	(1,953)	(1,240)	(713)	58%
<b>Net profit</b>	<b>4,697</b>	<b>2,552</b>	<b>2,145</b>	<b>84%</b>
<i>Margin</i>	<i>15%</i>	<i>15%</i>	<i>0 pp</i>	

2017 ended with a net profit of € 4.6 million. Production revenues of € 31 million resulted in EBITDA of approximately € 6,866 million. Operating costs of € 24.1 million mainly refer to raw materials (€ 14.4 million) and services (€ 9.1 million).

The increase in production revenues (€ 14.3 million; +86%) and the proportionate increase in external costs (€ 11.3 million; +89%) are due to the nature of the order book in 2017 which was characterised by the progress of the EPC contract signed with Cogein and the beginning of the contract for the construction of the power line connecting Morcone (BN) and Castelpagano (BN).

Net financial expense of € 0.2 million refers to the rise in fees and commissions, interest expense and bank fees to use credit lines compared to the previous year.

EBT amounts to € 6,6 million. Income taxes have a negative effect of € 1,9 million and result in a net profit for the year of € 4,6 million.

**Table 10 – Renexia S.p.A. reclassified balance sheet**

Balance sheet <i>In thousands of euro</i>	31/12/2017	31/12/2016	Change	% Change
Total fixed assets	19	18	1	6%
NWC	10,381	2,720	7,661	282%
<b>NIC</b>	<b>10,400</b>	<b>2,738</b>	<b>7,662</b>	<b>280%</b>
Provisions	0	0	0	N.A.
Employees' leaving entitlement	(50)	(41)	(9)	22%
<b>Invested capital</b>	<b>10,350</b>	<b>2,697</b>	<b>7,653</b>	<b>284%</b>
<b>Net equity</b>	<b>5,439</b>	<b>2,742</b>	<b>2,697</b>	<b>98%</b>
<b>Net financial indebtedness/(position)</b>	<b>4,911</b>	<b>(45)</b>	<b>4,956</b>	<b>-11013%</b>
Payable to the grantor	0	0	0	N.A.
<b>"Adjusted" net financial indebtedness/(position)</b>	<b>4,911</b>	<b>(45)</b>	<b>4,956</b>	<b>-11013%</b>
<b>Total coverage</b>	<b>10,350</b>	<b>2,697</b>	<b>7,653</b>	<b>284%</b>

Net Invested Capital (NIC), essentially consisting of net working capital of € 10.3 million, amounted to € 10.4 million.

Net equity increased by € 2.6 million following the net profit for 2017 (€ 4.6 million), net of the negative effect of the € 2 million dividend paid.

Net financial indebtedness of € 4.9 million comprises liquid funds and self-liquidating loans of € 0.2 million and € 5.1 million, respectively.

**Table 11 – Infraengineering S.r.l. reclassified profit and loss account**

Profit and loss account <i>In thousands of euro</i>	2017	2016	Change	% Change
Production revenues	12,146	15,807	(3,661)	-23%
Operating costs	6,840	5,304	1,536	29%
<b>EBITDA</b> <i>EBITDA Margin</i>	<b>5,306</b> 44%	<b>10,503</b> 66%	<b>(5,197)</b> -23 pp	<b>-49%</b>
D&A	51	40	11	28%
<b>EBIT</b> <i>EBIT Margin</i>	<b>5,255</b> 43%	<b>10,463</b> 66%	<b>(5,208)</b> -23 pp	<b>-50%</b>
Net financial income	24	19	5	26%
<b>EBT</b> <i>Margin</i>	<b>5,279</b> 43%	<b>10,482</b> 66%	<b>(5,203)</b> -23 pp	<b>-50%</b>
Income taxes	(1,577)	(3,296)	1,719	-52%
<b>Net profit</b> <i>Margin</i>	<b>3,702</b> 30%	<b>7,186</b> 45%	<b>(3,484)</b> -15 pp	<b>-48%</b>

2017 ended with a net profit of € 3.7 million. Production revenues of € 12,1 million resulted in EBITDA of approximately € 5.3 million. Operating costs of € 6.8 million mainly comprise services (€ 3.2 million) and use of third party assets (€ 0.4 million). The latter essentially refer to office leases. The decrease in EBITDA (down € 5.3 or 49%) is due to the increase in operating costs (€ 1.5 million) and the nature of the 2017 order book which is characterised by smaller profit margins compared to the previous years. EBITDA is also affected by personnel expenses which rose by approximately € 0.6 million (+32%) on 2016 (from € 2.1 million to € 2.7 million in 2017). Indeed, the company's strategy was to hire new resources to promptly manage the expected needs due to the increase in design and development activities, especially in relation to the related company SDP.

Being a streamlined business (engineering services), the impact of amortisation and depreciation is negligible (€ 51 thousand). At year end, EBIT amounted to € 5.2 million.

Net financial income is marginal. Consequently, EBT amounts to € 5.2 million.

Income taxes had a negative effect of € 1.5 million, generating a net profit for the year of € 3.7 million.

**Table 11 – Infraengineering S.r.l. reclassified balance sheet**

Balance sheet	31/12/2017	31/12/2016	Change	% Change
<i>In thousands of euro</i>				
Total fixed assets	112	64	48	75%
NWC	18,887	16,028	2,859	18%
<b>NIC</b>	<b>18,999</b>	<b>16,092</b>	<b>2,907</b>	<b>18%</b>
Provisions	0	0	0	N.A.
Employees' leaving entitlement	(200)	(167)	(33)	20%
<b>Invested capital</b>	<b>18,799</b>	<b>15,925</b>	<b>2,874</b>	<b>18%</b>
<b>Net equity</b>	<b>20,185</b>	<b>16,483</b>	<b>3,702</b>	<b>22%</b>
<b>Net financial position</b>	<b>(1,386)</b>	<b>(558)</b>	<b>(828)</b>	<b>148%</b>
Payable to the grantor	0	0	0	N.A.
<b>"Adjusted" net financial position</b>	<b>(1,386)</b>	<b>(558)</b>	<b>(828)</b>	<b>148%</b>
<b>Total coverage</b>	<b>18,799</b>	<b>15,925</b>	<b>2,874</b>	<b>18%</b>

Net Invested Capital (NIC) increased by € 2.9 million compared to 31 December 2016. The increase is solely due to the performance of NWC which was positively affected by the rise in receivables, specifically trade receivables.

Net equity increased by € 3.7 million, following the net profit for the year.

**Table 13 - Parchi Global Services S.p.A. reclassified profit and loss account**

Profit and loss account <i>In thousands of euro</i>	2017	2016	Change	% Change
Production revenues	23,005	18,209	4,796	26%
Operating costs	14,838	10,620	4,218	40%
<b>EBITDA</b>	<b>8,167</b>	<b>7,589</b>	<b>578</b>	<b>8%</b>
<i>EBITDA Margin</i>	<i>36%</i>	<i>42%</i>	<i>-6 pp</i>	
D&A	264	270	(6)	-2%
<b>EBIT</b>	<b>7,903</b>	<b>7,319</b>	<b>584</b>	<b>8%</b>
<i>EBIT Margin</i>	<i>34%</i>	<i>40%</i>	<i>-6 pp</i>	
Net financial expense	461	207	254	123%
<b>EBT</b>	<b>8,364</b>	<b>7,526</b>	<b>838</b>	<b>11%</b>
<i>Margin</i>	<i>36%</i>	<i>41%</i>	<i>-5 pp</i>	
Income taxes	(2,493)	(2,476)	(17)	1%
<b>Net profit</b>	<b>5,871</b>	<b>5,050</b>	<b>821</b>	<b>16%</b>
<i>Margin</i>	<i>26%</i>	<i>28%</i>	<i>-2 pp</i>	

Production revenues rose by € 4.7 million from € 18.2 million in 2016 to € 23.0 million in 2017. The increase resulted in a more than proportional rise in costs, up from € 10.6 million in 2016 to € 14.8 million in 2017.

The operating performance resulted in EBITDA of € 8.1 million, slightly up (+8%) on the previous year.

Given the negligible impact of amortisation and depreciation and net financial income, the net profit for the year amounts to € 5.8 million, after income taxes of € 2.4 million.

**Table 14 – Parchi Global Services S.p.A. reclassified balance sheet**

Balance sheet	31/12/2017	31/12/2016	Change	% Change
<i>In thousands of euro</i>				
Total fixed assets	470	674	(204)	-30%
NWC	(3,056)	(3,321)	265	-8%
<b>NIC</b>	<b>(2,586)</b>	<b>(2,647)</b>	<b>61</b>	<b>-2%</b>
Provisions	0	0	0	N.A.
Employees' leaving entitlement	(411)	(332)	(79)	24%
<b>Invested capital</b>	<b>(2,997)</b>	<b>(2,979)</b>	<b>(18)</b>	<b>1%</b>
<b>Net equity</b>	<b>9,099</b>	<b>8,228</b>	<b>871</b>	<b>11%</b>
<b>Net financial position</b>	<b>(12,096)</b>	<b>(11,207)</b>	<b>(889)</b>	<b>8%</b>
Payable to the grantor	0	0	0	N.A.
<b>"Adjusted" net financial indebtedness/(position)</b>	<b>(12,096)</b>	<b>(11,207)</b>	<b>(889)</b>	<b>8%</b>
<b>Total coverage</b>	<b>(2,997)</b>	<b>(2,979)</b>	<b>(18)</b>	<b>1%</b>

Net invested capital (NIC) is substantially unchanged compared to the previous year.

Net equity increased by € 0.8 million, reflecting the rise in the net profit for the year (€ 5.8 million) and the decrease due to the distribution of dividends in 2016 (€ 5.0 million).

The net financial position amounts to € 12.0 million and comprises liquid funds and the financial receivable from the parent TH.

## Risk Factors and Uncertainties

### TOTO Holding S.p.A.

#### *Tax disputes*

##### **Pex Cityliner**

On 18 July 2011, the Chieti section of the Italian tax police (Guardia di Finanza) served Toto Holding S.p.A. (formerly Toto Costruzioni Generali S.p.A.) a preliminary assessment report following a tax audit commenced on 17 February. In the report the tax police challenged the use of pex in the 2009 tax return (income for 2008) for the sale (in 2008) of the investment held by Toto Holding S.p.A. in Air One Cityliner S.p.A.

The following information is provided for the objections:

- i) On 26 February 2013, the Agenzia delle Entrate – Direzione Regionale dell'Abruzzo (Revenue Office - Regional Management of Abruzzo) - served a notice of assessment. The company considered this notice to be unlawful and groundless, also considering Circular 7/E issued by the Italian tax authorities on 29 March 2013. It has therefore initiated the instruments and actions to uphold the legitimacy of its conduct. However, the L'Aquila Provincial Tax Commission filed an unfavourable ruling on 10 March 2014.
- ii) On 26 May 2014, the company filed an appeal with the Regional Tax Commission as it believed that the reasons behind the ruling were groundless. In its ruling 186/1/2015, the L'Aquila Regional Tax Commission rejected the appeal filed by the company against its decision to reject the appeal against the notice of assessment served by the tax authorities.

In the 2015-2016 two-year period, Equitalia notified the company four notices of collection, including (i) the alleged unpaid tax, (ii) the fines (equal to 100% of the tax), (iii) the interest and (iv) the collection fees. With respect to these notices of collection, the company requested and obtained four instalment plans of 72 months each, expiring on 30 June 2020, 31 December 2020, 10 June 2021 and 31 October 2021.

- iii) The company is certain of its position and, on 21 September 2015, lodged an appeal with the Court of Cassation.
- iv) On 10 October 2015, the company submitted an application to the L'Aquila Regional Tax Commission requesting the suspension of the effects of ruling 186/1/2015.
- v) On 28 December 2015, the L'Aquila Regional Tax Commission issued an order allowing the company's request; the suspension is not subject to the granting of any surety or other type of guarantee. Equitalia has suspended the instalment payment plan pending settlement of the dispute as of this date.

At the preparation date of this document, there were no further updates. Fixing of the hearing is pending with the Court of Cassation.

Since no facts occurred which may change the observations made in the previous years and, once again, in accordance with the ruling reporting standards, the company, which still considers the risk of losing the case possible but not probable, as confirmed by the opinion of the leading tax professors and experts that assist it,

did not recognise any accrual in the financial statements in respect of the liability that may arise from this dispute.

### **2010 VAT**

On 8 November 2017, the tax authorities notified TH of the registration in the tax roll under no. 2017/900125 and served payment notice no. 032 2017 00031653 03000 totalling € 2,614,577.49, plus collection fees to be paid to the same tax authorities. The demand refers to the instalment plan granted by the tax authorities for failure to pay the VAT due for January, June, July and November 2010 (the "2010 VAT") for a total of € 8,431,530.44, inclusive penalties and interest. The instalment plan provided for twenty instalments from January 2012 to October 2016. TH duly paid the first nineteen instalments and failed to pay only the last one in October 2016.

By failing to adopt any form of preliminary communication to safeguard the right of defence, TH was informed that the tax authorities immediately registered the last outstanding instalment (€ 378,192.33) with the tax roll, claiming penalties (€ 1,550,588.55) and interest (€ 685,796.60). The latter was calculated on the tax paid in instalment (€ 7,563,846.76).

TH immediately appealed against the registration with the tax roll and the payment notice, claiming its full cancellation to the extent of the section covering the payment of penalties and interest, which assumed the entire amount of the tax originally paid in instalments as reference parameter, rather than only the unpaid tax instalment.

Section II of the Chieti provincial tax commission suspended the registration with the tax roll and the payment notice in its order dated 5 February 2018.

The hearing on the merits was held on 4 May 2018. The outcome is pending.

Assisted by the opinion of its legal advisors, TH believes that the exceptional claim filed by the tax authorities is groundless to the extent of the section covering the penalties and interest related to the entire amount of the original tax. The residual liability related to the last instalment is recognised in TOTO CG's financial statements since this transaction took place prior to the contribution of the business unit between TH and TOTO CG in 2011.

### ***Dispute between TOTO Holding S.p.A. - Compagnia Aerea Italiana S.p.A.***

In line with that disclosed in the 2016 consolidated financial statements, the so-called Identified Dispute arising from the master agreement entered into in December 2008 for the sale of 100% of AirOne S.p.A. to Alitalia – Compagnia Aerea Italiana S.p.A. was settled in August 2017.

The Identified Dispute represented a series of disputes brought against Air One S.p.A. and its subsidiaries for which, under the terms of the aforesaid master agreement, Toto Holding agreed to take on the related liabilities. As further discussed in the section "Significant events - Toto Holding S.p.A." and as further described in the notes to "Provisions for risks and charges" and "Other payables", it is noted that on 2 and 3 August 2017, Toto Holding and CAI entered into a settlement agreement (the "Agreement") whereby the parties agreed the terms to repay the amounts due by Toto Holding. Under the Agreement, TH will also bear the legal fees related to the

management of the Identified Dispute (€ 1.2 million). Furthermore, it agreed to waive any appeal against the issues covered by the settlement agreement. TH is duly meeting the repayment dates of the amount due.

## SDP

### *Ordinary Civil Proceedings*

- With respect to case R.G.N. 26754/2014 brought by SDP against Italgas S.p.A. in order to recover the costs of moving certain infrastructure owned by the gas distributor operator, made necessary in order to carry out work to build the urban slip road system connecting the A24 motorway in the section between the Roma Est station and the Via Palmiro Togliatti junction, with judgement no. 21261/17 of 9 November 2017, the Court of Rome accepted all SDP's requests and ordered Italgas S.p.A. to pay the amount requested (€ 1.1 million), plus interest and legal fees.
- With respect to case R.G.N. 6055/2016 pending before the Court of Rome in order to ascertain ENI S.p.A.'s contractual breach due to the failure to fully execute the works for the restructuring and upgrading of the Civita Nord service area on the A24 motorway, claiming damages totalling € 386 thousand, during the hearing for admission of evidence, the Judge rejected the preliminary requests and scheduled the next hearing for closing arguments on 13 March 2019. The application to revoke the preliminary order was filed on 2 February 2018.
- With respect to the dispute pending before the Civil Court of Rome (R.G. 6053/2016) in order to ascertain ENI S.p.A.'s and Autogrill S.p.A.'s contractual breach due to the failure to fully execute the works for the restructuring and upgrading of the Montevelino Nord service area on the A25 motorway, claiming damages totalling € 3.3 million, during the hearing for admission of evidence, the Judge postponed the ruling and, eventually, rejected the preliminary requests and scheduled the next hearing for closing arguments on 13 December 2017. The application to revoke the preliminary order was allowed on 16 February 2018, postponing the hearing to 16 May 2018.
- With respect to dispute R.G. 6051/2016 at the Civil Court of Rome in order to ascertain ENI S.p.A.'s and Autogrill S.p.A.'s contractual breach due to the failure to fully execute the works for the restructuring and upgrading of the Colle Tasso sud service area on the A24 motorway, claiming damages totalling € 1.6 million, during the hearing for admission of evidence, the Judge rejected SDP's preliminary requests and scheduled the next hearing for closing arguments on 16 October 2019. The application to revoke the preliminary order filed on 2 February 2018 was rejected with the measure filed with the registry on 16 February 2018.

### *Ordinary Administrative Proceedings*

With respect to case R.G.N. 0329/2016 brought before the Lazio TAR by Sodifa S.r.l. to annul communication no. 8766 of 18 May 2016, in which SDP made a final decision about the request for concession and authorisation, pursuant to Legislative decree no. 285/1992, to build a gas pipeline on the "A/24 Rome - L'Aquila- Teramo" motorway, in its ruling no. 577/2017 of 11 December 2017, the L'Aquila TAR annulled the contested measures in line with precautionary guidelines.

With respect to case R.G.N. 0206/2017 brought before the Lazio TAR by Snam Rete Gas to annul communication no. 6822 of 31 March 2017, in which SDP rejected the request for concession and the related authorisation to perform the works to cross the A24 motorway at km 100+546 filed by the applicant on 3 September 2015 and integrated on 21 December 2016, with respect to the connection of the gas pipeline granted in concession to Sodifa S.r.l., on 5 July 2017, the chamber issued a protection order filed on 10 July 2017, allowing the request for suspension, having concluded that there was an overriding interest in performing the works with respect to the road safety criteria challenged and set the hearing on the merits on 11 July 2018. On 8 August 2017, Snam Rete Gas provided SDP and the MIT with additional reasons about the measures challenged in the initiating proceedings.

#### Renexia S.p.A.

The arbitration award related to the dispute brought about by ETS against former Ponte Albanito S.r.l. (now C.v.a. S.p.A., following the merger of Ponte Albanito into CVA) was issued on 17 December 2016. In its award, the board of arbitrators ordered Ponte Albanito to pay ETS (i) the residual consideration assessed during the proceedings and (ii) damages for not having complied with some contractual provisions originally agreed at the time of their collaboration. The total amount to be paid by former Ponte Albanito is approximately € 3.3 million, inclusive of legal and default interest and legal fees. 100% of Ponte Albanito's quota capital was sold by Renexia S.p.A. to C.v.a. S.p.A. in January 2015. Based on the compensation obligation assumed in Ponte Albanito's sale contract, since this dispute began well before its sale and pertains to facts which occurred when Ponte Albanito was a subsidiary of Renexia, in the event of final conviction, the latter shall compensate C.v.a. S.p.A. for any amounts to be paid to ETS. In this respect, although according to Renexia, ETS' requests are groundless, the company prudently recognised an accrual reflecting the amount set out in the arbitration award in the provision for risks and charges. The arbitration award was appealed on 6 February 2017 and C.v.a. S.p.A. obtained a suspension of enforceability, subject to the provision of a guarantee of € 3.2 million (the **"Guarantee"**). C.v.a. S.p.A., in turn, was guaranteed by the company and, consequently, gave the Guarantee. Accordingly, the enforceability of the award is suspended pending the judgement on appeal.

The first appeal hearing (L'Aquila Court of appeal, RG 290/17), which was held on 13 June 2017, resulted in the adjournment to the hearing for closing arguments of 9 April 2019, subject to suspension.

#### Revenues by geographical segment

Pursuant to article 2427.10 of the Italian Civil Code, it is noted that part of the group's revenues are earned in foreign countries. For additional information, reference should be made to the note to revenues.

#### Organisational model pursuant to Legislative decree no. 231/2001

As in previous years, in 2017, the company's Supervisory body, appointed in 2008 and renewed at the relevant expiry dates, carried out its control activities.

#### Proceedings RGNR 1978/2008 before the Pescara Court

On 17 April 2010, at the request of the Public Prosecutor, as part of the criminal proceedings under case RG 1978/2008, the Preliminary Investigation Judge at the Pescara Court ordered, in accordance with articles 19 and 53 of Legislative decree no. 231/01, the precautionary seizure for forfeiture of the investment held by Toto Holding S.p.A. in the subsidiary Alitec S.p.A. worth € 2,007,933.77. The Public Prosecutor extended the criminal liability to the company pursuant to Legislative decree no. 231/2001 on the basis that – when the crime was committed – the latter had not adopted an organisational model capable of preventing the alleged crime.

Various hearings were held before the Preliminary Investigation Judge for the decision on the request by the Public Prosecutor to institute criminal proceedings, during which the Judge acknowledged the pursuit of civil claims. The last hearing was held on 28 March 2013, when the Preliminary Investigation Judge ruled that all the indicted persons be committed for trial.

After several postponements, the first hearing was eventually fixed for 9 April 2015. During said hearing, the Public Prosecutor began hearing the witnesses.

In the subsequent hearing on 24 April 2017, at the request of the lawyer of one of the defendants (Ms. Olivieri, Special commissioner of the tender, totally unrelated to Toto Holding), joined by the lawyer of Mr. Minenna, another defendant (at the time ANAS' Central technical officer, also unrelated to Toto Holding), the Judge ruled that all the charges against the defendants had expired under the statute of limitations. Furthermore, on the same day, the Judge handed down and filed the related ruling, ordering the continuation of the proceedings only to the extent of the involved companies, in order to check the existence, if any, of the administrative crimes allegedly committed by said companies under Legislative decree no. 231/2001.

Mr. Carlo, Mr. Alfonso and Mr. Paolo Toto were not present in Court and, consequently, were unable to file a statement waiving the statute of limitations (the latter must be submitted, *ope legis*, prior to filing the ruling confirming the statute of limitations). In any case, as the above parties decided not to accept the statute of limitations and being certain that their actions had always been in compliance with the law and the procedures, on 9 May 2017, they appealed to the L'Aquila Court of appeal, contesting the statute of limitations ruling and asking that they be judged on their own merits. Similarly, Mr. Luciano d'Alfonso (unrelated to the company) appealed against the statute of limitations.

In the hearing of 16 May 2018, the L'Aquila Court of appeal acquitted Mr. Carlo Toto and Mr. Luciano D'Alfonso, while confirmed the statute of limitations for Mr. Alfonso Toto and Mr. Paolo Toto.

The dispute will continue only to the extent of the companies involved.

The next hearing has been scheduled for 24 September 2018.

#### Proceedings RGNR 18997/2008 before the Florence Court

As reported in the previous Directors' Reports, on 9 March 2012, the Preliminary Investigation Judge at the Court of Florence ordered for the hearing on 4 October 2012, as part of the criminal proceedings (RG GIP 4768/09) initiated following the death of three workers, that the following be committed for trial:

(i) both the persons who, at time of the alleged, had a leading position at Toto Costruzioni Generali S.p.A., and who today, following the transfer of the Construction Business Unit, have the same position at Toto S.p.A. Costruzioni Generali;

(ii) and this company, for an administrative offence resulting from the violation of worker health and safety rules and regulations.

At the hearing of 16 December 2013, the Judge read the ruling (subsequently filed on 3 April 2014), in which – inter alia - this company was ordered to pay a penalty pursuant to Legislative decree no. 231/2001 of € 360 thousand.

The company appealed against the ruling and in the hearing of 11 March 2016, the Court of Appeal confirmed the penalty imposed on the company and, with reference to the defendants who were, at the time of the facts, employed by this company, acquitted Mr. Toscan and confirmed the conviction of Mr. Talone, but reduced his sentence with respect to that handed down at the first level of judgement. The sentence was filed on 6 May 2016 and both the company and Mr. Talone filed an appeal in Cassation.

The hearing before the Court of Cassation is fixed for 14 June 2018.

### Conclusions

At the time of the offences in question under case no. 1978/2008 RGNR at the Court of Pescara and the proceeding under case no. 18997/2008 RGNR at the Court of Florence, the company, as confirmed in the Board minutes of 21 October 2007, had already started the process of mapping out risky activities in preparation for drawing up the Model pursuant to Legislative decree no. 231/01.

It can therefore be said that, also thanks to the activities of the supervisory body, this company took all the measures and expedients necessary or simply useful for preventing events such as those at issue in the aforementioned proceedings.

## Other Information

### Research and development

Pursuant to article 2428.2.1, it is noted that the group companies did not carry out any development activities in 2017.

### Risk management, financial instruments and guarantees

#### *Liquidity risk*

The group pays special attention to managing the resources generated or absorbed by operating and/or investing activities and to the characteristics of payables in terms of due and renewal dates in order to ensure cash flow is managed effectively.

A series of policies and processes have been accelerated targeted towards optimising the dynamics of financial resources, with the purpose of managing and mitigating liquidity risk.

In particular, special attention is paid to:

- monitoring the level of liquidity available;
- optimising credit lines;
- monitoring future liquidity.

In accordance with the objectives set out in the 2018-2022 business plan, the group intends to create a financial structure which, in line with business targets, guarantees adequate liquidity, while minimising the related opportunity cost.

The efficiency and effectiveness targets of the financial structure are pursued in the 2018-2022 business plan as follows:

- SDP's continuation of works related to the urgent safety measures for the A24 and A25 motorways in order to comply with the ruling antiseismic regulations. These works (which only cover the first urgent measure of a larger investment plan worth approximately € 3 billion – the new BU is being discussed by SDP, several government bodies involved and the European Commission) total € 250 million, of which works worth approximately € 58 million have already been completed and financed, while € 192 million remains to be completed.

To prevent the risk of interrupting the performance of the urgent works and all the consequences related to the safety of the motorway network and the impact on society, given the threat of job losses due to the further delays in the performance of works, the Abruzzo and Lazio regions will provide SDP with financial resources. Indeed, in its Municipal resolution no. 499 of 9 July 2018, the Abruzzo region provisionally authorised the MIT to use part of the Fund for Development and Cohesion ("FSC") accrued in favour of the two regions. On 17 July 2018, the Lazio region notified the decision in the "Official bulletin of the Lazio region no. 58".

The financial resources originally related to the works which will not be covered by the progress report before 31 December 2018. Consequently, they were used to cover SDP's works. The government will subsequently return these advances to the regions;

- a new finance transaction (a bond issued by TH) worth approximately € 100 million to support the major investments described earlier and to develop, inter alia, the activities in progress in the US (Renewables BU) and the other activities which require a start-up stage;
- enhancing assets, such as the renewable energy projects in Tunisia and in New Jersey which have already received several expressions of interest;
- enhancing assets not deemed strategic (such as properties).

Based on the above and considering the activities carried out in the short term to develop the wind power projects such as Casalduni (BN) through the Energy BU (Renexia S.p.A. and its subsidiaries), the group's management believes that it has access to a sufficient range of sources of funding and financial options to cover

its foreseeable financial needs and guarantee the availability of resources to meet its short-term commitments and repay its debt within a medium-long period.

#### *Currency risk*

The financial transactions among group companies are carried out mainly in euros, with the exception of AP Fleet Ltd and US Wind Inc., whose transactions are expressed in US dollars.

The euro is also the currency for external sources of financing to support and develop the company's business activities.

#### *Derivatives*

In previous years, some group companies entered into interest rate hedges. These include Strada dei Parchi S.p.A. which, at the same time of signing the project finance loan agreement, entered into interest rate swaps with its pool of financiers to mitigate the financial risk linked to interest rate fluctuations and stabilise cash flows from operating activities. Further information is provided in the notes to the financial statements.

#### *Credit risk*

The customers of the companies are primarily companies or groups which are by nature solvent. Credit risk, which means the exposure of the company to potential losses deriving from non-fulfilment by its customers of their obligations, should therefore be considered insignificant.

The amounts due from third parties (trade and financial) are therefore established with a limited number of parties; these receivables are subject to individual write-downs, if individually significant and if there is a possible recovery risk. The amount of the write-down must take into account recoverable cash flows and the relative collection dates, as well as the value of the guarantees received from the customers. Reference should be made to the relevant notes to the financial statements for information about the provision for bad debts for trade and financial receivables.

#### *Guarantees and sureties*

For information on guarantees and sureties, reference should be made to the notes to memorandum accounts.

## **Significant events after the reporting date**

### **Holding**

The repayment of bank loans and borrowings continued in early 2017, on the basis of the repayment plan agreed upon by the parties. At the preparation date of this annual report, all loans and borrowings in place at 31 December 2017 had been fully repaid.

In January 2018, TH set up a subsidiary (Concessioni Autostradali S.p.A.) to which it contributed an investment in SDP in April 2018 pursuant to article 2343-*ter*. The contribution took place at carrying amount. The aim of the transaction is to create a group's sub-holding which will manage concessions.

With respect to the settlement agreement entered into with CAI discussed in the section "Significant events – Toto Holding S.p.A.":

1. on 25 January 2018, TH pledged the shares of the subsidiaries Toto Real Estate S.p.A. and Parchi Global Services S.p.A. to guarantee regular repayment of its liability;
2. at the preparation date of this annual report, the company paid the instalments as set out in the agreement for total of approximately € 29 million, inclusive of the interest thereon. Consequently, the residual liability to CAI amounts to € 31.8 million, of which € 18.5 million is due after one year.

## Construction

On 9 February 2018, TOTO CG and Seli Overseas S.p.A. set up the consortium company RADIMERO Scarl to perform the works related to the contract assigned by the COCIV (the "Giovi Third Tunnel" - Valico lot (RADIMERO)). The consortium fund is held as follows: 58% TOTO CG, 42% Seli Overseas S.p.A.

On 23 February 2018, following the variation report which implemented some project revisions, TOTO CG entered a specific submission deed with SDP whereby it committed to perform the works in accordance with the new contractual provisions. Under the above deed: (i) the contract amount was redetermined to approximately € 139 million; (ii) its term was adjusted based on the reduced amount and the scope of work, setting the new expiry date to 16 September 2018; (iii) an acceleration bonus totalling € 6.3 million was negotiated to complete the works by 16 June 2018, as it was indeed the case.

The contract covers the first lot of works included in the MISU (urgent securing works) scheme launched by Strada dei Parchi to implement urgent safety measures in the two motorways under concession. It was submitted by the operator to the MIT. With respect to this scheme, which is worth approximately € 250 million, pursuant to article 52-quinquies of Law decree no. 50 of 24 April 2017, converted into Law no. 96 of 21 June 2017, the government approved an outright grant of € 50 million for each of the years from 2021 to 2025 to Strada dei Parchi S.p.A., using the resources of the Fund for Development and Cohesion (2014-2020).

Since the time necessary to obtain the grant as of 2021 would not be compatible with the urgent nature of the works to be performed immediately and given the difficulties in obtaining loans due to the existing contractual constraints, the operator requested the immediately disbursement of the amount at least necessary to finance the completion of the first urgent works already assigned. In January 2018, it received approximately € 58 million of the € 250 million accrued. The residual amount necessary to complete the urgent works is therefore € 192 million.

Since the late disbursement of the financial resources would force the operator to halt the performance of the safety works, in the public interest and to protect the safety of the public and the civil protection needs, on 9 July

2018, with decision no. 499, the Abruzzo regional council 499 “resolved to provisionally allow the MIT to use the available FSC resources, accrued in favour of the Abruzzo region, solely to complete the works closely related to the urgent safety measures necessary to resolve the traffic dangers on the A24 and A25 motorways.”

The decision was submitted to the MIT which, together with the Ministry for the south, will “reschedule” the allocation of the FCS resources, with due urgency. The proposed rescheduling will be on the agenda of the CIPE’s meeting. As this merely refers to a different time allocation of resources and does not entail additional expenditure, the CIPE will acknowledge and approve the rescheduling plan.

Therefore, the MIT will grant the resources to Strada dei Parchi which will promptly assign the works to the group company in order to rapidly complete the urgent works.

With respect to the L’Aquila contract, starting from March 2018 and, subsequently, in May and June, the company submitted additional updates about the executive design to the customer and the related validation report was prepared on 6 July. Work delivery and commencement is therefore expected in September.

With respect to the La Spezia contract, with the deed served on 8 June 2018, the company (supported by the lawyers Arturo Cancrini and Fabrizio Criscuolo), summoned ANAS before the Court of Rome (company section) to obtain the termination of the contract for serious breach by ANAS, also requesting damages of over € 47 million.

In the summons, the first hearing is scheduled for 5 November 2018.

The tax audit carried out by the Agenzia delle Entrate – Direzione Regionale dell’Aquila (Revenue Office - Regional Management of L’Aquila) related to the 2015 tax year, which commenced on 11 June 2018, ended on 11 July 2018.

The related preliminary assessment report included one finding related to the tax claim on the depreciation charges calculated in 2015, for a total of € 1.9 million, of the “MARTINA” TBM which was not used in such tax year.

The company formally objected to this finding already in the preliminary assessment report. Indeed, it believes that this asset is clearly and undoubtedly instrumental to its business activity and, consequently, the deduction of the depreciation charge in the 2015 tax year is correct.

## Concessions

### Toll increase

On 29 December 2017, with note SVCA-MIT-0023482-P, the grantor informed SDP of the adoption of Interministerial decree no. 615 dated 29 December 2017 issued by the Ministry of Infrastructure and Transport together with the Ministry of Economy and Finance, pursuant to which the toll update applicable from 1 January 2018 has been determined at 12.89% instead of SDP’s proposed 15.47%. As it believed that some reductions had not been adequately explained, SDP appealed against the decree before the Lazio TAR (ruling R.G.N. 2675/2018).

On 12 March 2018, the operator exercised the right to access the investigation documents prepared by the Supervisory Body for motorway operators on SDP's application for toll increase for 2018. The documents obtained are currently being examined by SDP's technical and legal departments. Once the examination is complete, the operator will decide, if necessary, on the measures to be adopted to protect its interests.

#### Urgent safety measures

As part of the anti-seismic adjustment works, pursuant to article 52 quinquies of Law decree no. 50 of 24 April 2017, converted into Law no. 96 of 21 June 2017, the Government approved an outright grant of € 250 million, of which € 57.7 million has been disbursed to date. To prevent the risk of interrupting the performance of the urgent works and all the consequences related to the safety of the motorway network and the impact on society, given the threat of job losses due to the further delays in the performance of works, the Abruzzo and Lazio regions will provide SDP with financial resources. Indeed, in the Municipal resolution no. 499 of 9 July 2018 and as per the "Official bulletin of the Lazio region no. 58", respectively, both regions provisionally authorised the MIT to use part of the Fund for Development and Cohesion accrued in favour of the two regions. The financial resources originally related to the works which will not be covered by the SAL before 31 December 2018. Consequently, they were used to cover SDP's works. The government will subsequently return these advances to the regions.

#### Update of the new BP

In its letter of 28 March 2018 (no. 6576), the Department for monitoring motorway operators informed the operator that the working group, specifically set up to update SDP's BP and comprised of the MIT, the MEF and the General State Accounting Department, identified the parameters necessary to revise the concession in line with the motorway safety measure scheme following the earthquakes of the past few years.

After several formal and informal meetings with the competent bodies and based on the additional analyses carried out, in order to facilitate the approval procedure, SDP submitted an agreed formal proposal to the grantor on 13 June 2018.

The main assumptions underlying the formal proposal are as follows:

- Investments – € 3.140 billion
- Concession's current expiry date – 2030
- Extension – up to 15 years
- Toll increase – 3.50% max (including inflation)
- WACC: 8.40%
- Government grants – € 2.000 billion

The approval procedure is underway and is expected to be completed within the year.

The new BP is clearly a major business development opportunity for the group.

## Energy

### Projects in Italy

In May 2018, the Energy BU acquired Beleolico S.r.l. ("**BEL**") which owns the (i) Single Authorisation from the Puglia region, (ii) the concession for the relevant body of water and, meanwhile, (iii) won a feed-in tariff (FIT) in the latest FER2016 auction.

In order to acquire this investment, the group entered into a finance transaction issuing a bond through Renexia Wind Offshore S.p.A. (formerly Circello 2 S.r.l.). In May 2018:

- a) the quotaholders of Circello 2 S.r.l. resolved, inter alia, *(i)* to transform Circello 2 S.r.l. from a company limited by quotas to a company limited by shares based in Italy, *(ii)* to change its name to "Renexia Wind Offshore S.p.A." and *(iii)* to increase the paid-up share capital from € 10,000.00 (ten thousand) to € 50,000.00 (fifty thousand).
- b) Renexia Wind Offshore S.p.A. issued a senior-secured, non-convertible and non-subordinated bond for a total nominal maximum principal of € 25 million privately placed with one or more foreign investment funds related to the R-Green Invest fund listed on the multilateral trading system managed by the Vienna stock exchange (the so-called Third Market). The bonds comprise securities issued in dematerialised form and centralised in Monte Titoli S.p.A. management system (or, where necessary, another similar system). Each bond amounts to a minimum of € 1,000.00 (one thousand) and multiples thereof. The issue price is 100% of the nominal amount. Interest accrues on the bond at 8% p.a., the duration is 8 years and the issue is governed by the Italian law. The bonds are assisted by the following guarantees:
  - i. a pledge on all RENEXIA WIND shares;
  - ii. a pledge on RENEXIA WIND current account balance;
  - iii. the transfer of some receivables of RENEXIA WIND (including, without limitation, those which may arise from the transfer of the entire equity investment in Beleolico S.r.l.) or the quotaholder related to receivables arising from the loans granted to RENEXIA WIND; and
  - iv. TH's independent, first-demand guarantee related to some payment commitments taken on by RENEXIA WIND as per the bond issue.

BEL's acquisition and the clear confidence of the investors confirm the soundness of the project and the interest of the market as well as the group's ability to select the most interesting initiatives in the current renewable energy scenario.

## Projects abroad

### *Tunisia*

As described earlier, on 15 November 2017, MedWind Sarl (a Tunisian company controlled by Renexia S.p.A.) applied for the granting of a construction permit, inclusive of an incentive tariff blocked for 20 years, for the El Haouaria Ovest wind farm. The tender was postponed to the second half of 2018. The group's consortium companies will participate again in the tender which is expected to be completed by the last quarter of 2018 or the first quarter of 2019. Furthermore, during the year, land leases for a total of 20 positions were signed and land for an additional 10 positions was optioned in respect of the wind farm.

The possibility of participating in another tender, which is expected to be called in September 2018, in Tunisia is being considered.

## Services

### [Infraengineering S.r.l.](#)

There were no significant events after the reporting date.

### [Parchi Global Services S.p.A.](#)

There were no significant events after the reporting date.

Chairman of the Board of Directors

Paolo TOTO

# Consolidated financial statements

## Balance sheet

BALANCE SHEET (in thousands of €)	31.12.2017	31.12.2016
<b>ASSETS</b>		
<b>A) Share capital proceeds to be received</b>	<b>15</b>	<b>8</b>
I) Share capital proceeds to be received	15	8
<b>B) Fixed assets</b>	<b>1,348,010</b>	<b>1,273,863</b>
<b>I) Intangible fixed assets</b>	<b>51,585</b>	<b>58,270</b>
1) Start-up and capital costs	2,293	4,853
3) Industrial patents and intellectual property rights	752	623
4) Concessions, licences, trademarks and similar rights	34,467	36,353
5) Goodwill	1,385	2,770
6) Assets under development and payments on account	2,646	2,646
7) Other	10,042	11,025
<b>II) Tangible fixed assets</b>	<b>1,283,789</b>	<b>1,201,045</b>
1) Land and buildings	85,052	82,870
2) Plant and machinery	11,816	11,370
3) Industrial and commercial equipment	1,898	715
4) Other assets	3,904	2,920
5) Freely transferable assets	1,014,521	909,998
6) Assets under construction and payments on account	166,598	193,172
<b>III) Financial fixed assets</b>	<b>12,636</b>	<b>14,548</b>
<b>1) Equity investments:</b>	<b>3,759</b>	<b>2,679</b>
b) associates	3,722	2,565
d-bis) other	37	114
<b>2) Financial receivables</b>	<b>6,667</b>	<b>9,639</b>
b) from associates	5,132	6,569
d-bis) from others	1,535	3,070
<b>3) Other securities</b>	<b>2,210</b>	<b>2,230</b>
<b>C) Current assets</b>	<b>510,107</b>	<b>528,906</b>
<b>I) Inventory</b>	<b>223,684</b>	<b>190,461</b>
1) Raw materials, consumables and supplies	18,553	13,197
3) Contract work in progress	146,322	106,577
4) Finished goods	56,914	56,666
5) Payments on account	1,895	14,021
<b>II) Receivables</b>	<b>213,695</b>	<b>202,119</b>
1) Trade receivables	29,464	36,206
2) From subsidiaries	1,328	174
3) From associates	538	975
5-bis) Tax receivables	25,386	19,925
5-ter) Deferred tax assets	66,065	78,850
5-quater) From others	90,914	65,989
<b>III) Current financial assets</b>	<b>3,874</b>	<b>4,224</b>
1) Investments in subsidiaries	3,062	3,062
4) Other equity investments	0	137
6) Other securities	812	1,025
<b>IV) Liquid funds</b>	<b>68,854</b>	<b>132,102</b>
1) Bank and postal accounts	68,235	131,512
2) Cheques on hand	0	9
3) Cash-in-hand and cash equivalents	619	581
<b>D) Prepayments and accrued income</b>	<b>16,757</b>	<b>18,205</b>
<b>TOTAL ASSETS</b>	<b>1,874,889</b>	<b>1,820,982</b>

BALANCE SHEET (in thousands of €)	31.12.2017	31.12.2016
<b>LIABILITIES:</b>		
I) Share capital	100,000	100,000
III) Revaluation reserve (pursuant to Law decree no. 185/08)	17,561	17,561
IV) Legal reserve	2,111	1,796
VI) Other reserves	245,173	249,338
1) Extraordinary reserve	242,486	242,486
2) Translation reserve	2,687	6,601
2) Other reserves	0	251
VII) Hedging reserve	(68,866)	(83,549)
VIII) Losses carried forward	(167,831)	(166,070)
IX) Net profit for the year, including the portion attributable to minority interests	8,118	845
Minority interests in the net profit for the year	3,199	2,981
<b>Net equity, excluding the portion attributable to minority interests</b>	<b>133,067</b>	<b>116,940</b>
Sub-total (Share capital and reserves attributable to minority interests)	10,329	8,870
<b>A) Net equity</b>	<b>143,396</b>	<b>125,810</b>
<b>B) Provisions for risks and charges</b>	<b>108,408</b>	<b>181,952</b>
2) Tax provision	274	192
3) Derivatives	90,613	109,933
4) Other provisions	17,521	71,827
<b>C) Employees' leaving entitlement</b>	<b>9,941</b>	<b>10,461</b>
<b>D) Payables</b>	<b>1,610,805</b>	<b>1,500,987</b>
<b>III) Shareholder loans</b>	<b>1,145</b>	<b>1,104</b>
2) Due after one year	1,145	1,104
<b>IV) Bank loans and borrowings</b>	<b>585,698</b>	<b>606,102</b>
1) Due within one year	81,195	86,782
2) Due after one year	504,503	519,320
<b>V) Loans and borrowings to other financial backers</b>	<b>683,663</b>	<b>654,923</b>
1) Due within one year	60,784	116,032
2) Due after one year	622,879	538,891
<b>VI) Payments on account</b>	<b>56,617</b>	<b>40,887</b>
1) Due within one year	52,441	37,383
2) Due after one year	4,176	3,504
<b>VII) Trade payables</b>	<b>125,762</b>	<b>92,785</b>
1) Due within one year	125,762	92,785
<b>X) Payables to associates</b>	<b>657</b>	<b>149</b>
<b>XII) Tax payables</b>	<b>76,909</b>	<b>67,221</b>
<b>XIII) Social security charges payable</b>	<b>10,641</b>	<b>6,879</b>
<b>XIV) Other payables</b>	<b>69,713</b>	<b>30,937</b>
1) Due within one year	51,127	30,937
2) Due after one year	18,586	0
<b>E) Accrued expenses and deferred income</b>	<b>2,339</b>	<b>1,772</b>
<b>TOTAL LIABILITIES</b>	<b>1,874,889</b>	<b>1,820,982</b>

## Profit and loss account

PROFIT AND LOSS ACCOUNT (in thousands of €)	2017	2016
<b>a) Production revenues</b>	<b>397,885</b>	<b>401,125</b>
1) Turnover from sales and services	239,953	362,788
2) Change in work in progress	(235)	(955)
3) Change in contract work in progress	39,342	13,328
4) Internal work capitalised	109,315	19,610
5) Other revenues and income	9,510	6,354
<b>b) Production cost</b>	<b>307,346</b>	<b>334,421</b>
<b>6) Raw materials, consumables, supplies and goods</b>	<b>67,321</b>	<b>46,971</b>
<b>7) Services</b>	<b>90,459</b>	<b>117,227</b>
<b>8) Use of third party assets</b>	<b>12,786</b>	<b>8,558</b>
<b>9) Personnel expenses</b>	<b>72,701</b>	<b>67,197</b>
a) Wages and salaries	51,527	46,638
b) Social security contributions	16,561	16,470
c) Employees' leaving entitlement	3,346	3,031
e) Other costs	1,267	1,058
<b>10) Amortisation, depreciation and write-downs</b>	<b>45,576</b>	<b>52,158</b>
a) Amortisation of intangible fixed assets	5,521	5,466
b) Depreciation of tangible fixed assets	37,588	46,449
c) Other write-downs	2,362	118
d) Write-downs of current receivables	105	125
<b>11) Change in raw materials, consumables, supplies and goods</b>	<b>(5,271)</b>	<b>(2,554)</b>
<b>12) Provisions for risks</b>	<b>365</b>	<b>18,622</b>
<b>13) Other provisions</b>	<b>833</b>	<b>142</b>
<b>14) Other operating costs</b>	<b>22,576</b>	<b>26,100</b>
<b>Operating profit (A-B)</b>	<b>90,539</b>	<b>66,704</b>
<b>C) Net financial charges</b>	<b>(68,997)</b>	<b>(71,293)</b>
15) Income from equity investments	363	0
16) Other financial income	570	385
17) Interest and other financial charges	(71,148)	(71,273)
17-bis) Net exchange rate gains (losses)	1,218	(405)
<b>D) Adjustments to financial assets and liabilities</b>	<b>(21)</b>	<b>(835)</b>
18) Write-backs	293	0
19) Write-downs	(314)	(835)
<b>PRE-TAX PROFIT (LOSS)</b>	<b>21,521</b>	<b>(5,424)</b>
<b>20) Income taxes</b>	<b>13,403</b>	<b>(6,269)</b>
a) Current	7,816	5,809
b) Deferred and prior year taxes	5,587	(12,078)
<b>21) Net profit for the year, including the portion attributable to minority interests</b>	<b>8,118</b>	<b>845</b>
Minority interests in the net profit for the year	3,199	2,981
<b>22) Net profit (loss) for the year attributable to TOTO Group</b>	<b>4,919</b>	<b>(2,136)</b>

Chairman of the Board of Directors

Paolo TOTO

## Cash flow statement for 2017 (indirect method)

	2017	2016
<b>A. Cash flows from operating activities (indirect method)</b>		
<b>Net profit for the year</b>	<b>8,118</b>	<b>845</b>
Income taxes	13,403	(6,269)
Net interest expense	68,997	71,293
<b>1. Profit for the year before income taxes, interest, dividends and gains/losses on sales</b>	<b>90,518</b>	<b>65,869</b>
<i>Adjustments for non-monetary items with no balancing entry in NWC</i>		
Accruals to provisions	1,198	18,764
Amortisation/depreciation	43,109	51,915
Impairment losses	3,289	953
<b>2. Cash flows before changes in NWC</b>	<b>47,596</b>	<b>71,632</b>
<i>Changes in NWC</i>		
Increase in inventory	(33,223)	(58,916)
Decrease/(increase) in trade receivables	6,742	(9,488)
Increase in trade payables	32,977	24,796
Decrease in prepayments and accrued income	1,448	3,181
Increase/(decrease) in accrued expenses and deferred income	567	(1,247)
Other changes in NWC	42,645	(138)
<b>3. Cash flows after changes in NWC</b>	<b>51,156</b>	<b>(41,812)</b>
<i>Other adjustments</i>		
Interest paid	(68,997)	(71,293)
Income taxes paid	(3,715)	9,691
Non-monetary effect of reserves (e.g., translation reserve)	9,468	(9,972)
Use of provisions	(75,262)	1,839
<b>4. Cash flows after other adjustments</b>	<b>(138,506)</b>	<b>(69,735)</b>
<b>Net cash flows from operating activities (A)</b>	<b>50,764</b>	<b>25,954</b>
<b>B. Cash flows from investing activities</b>		
<i>Tangible fixed assets</i>		
(Investments)	(120,332)	12,826
<i>Intangible fixed assets</i>		
(Investments)	1,164	5,365
<i>Financial fixed assets</i>		
(Investments)	(1,377)	(4,723)
<i>Current financial assets</i>		
(Investments)	0	(3,062)
Divestments	350	439
<b>Net cash flows from (used in) investing activities (B)</b>	<b>(120,195)</b>	<b>10,845</b>
<b>C. Cash flows from financing activities</b>		
<i>Third party funds</i>		
Increase in bank loans and borrowings and loans and borrowings to other financial backers	8,336	7,281
<i>of which: Loans taken out and change in ANAS' concession fee</i>	<i>42,159</i>	<i>40,770</i>
<i>Loans repaid</i>	<i>(33,823)</i>	<i>(33,489)</i>
<i>Own funds</i>		
Share capital increase against consideration		
Sale (purchase) of own shares		
Dividends paid	(2,194)	(3,198)
Increase (decrease) in shareholder loans	41	(3)
<b>Net cash flows from financing activities (C)</b>	<b>6,183</b>	<b>4,080</b>
Increase (decrease) in liquid funds (A + B + C)	(63,248)	40,879
<b>Opening liquid funds</b>	<b>132,102</b>	<b>91,223</b>
<b>Closing liquid funds</b>	<b>68,854</b>	<b>132,102</b>

Chairman of the Board of Directors

Paolo TOTO

## Notes to the financial statements

Dear Shareholders,

The consolidated financial statements at 31 December 2017 show a net profit of € 4,919 thousand, after current taxes for € 13,403 thousand.

### General information

The traditional core business of the TOTO Group is the design and construction of infrastructure and residential and industrial buildings. Over the course of its history the group has also expanded its activities to different sectors which currently include:

1. Infrastructure construction;
2. Real estate sector;
3. Renewable energy sector;
4. Services;
5. Motorway concessions:

### Description of the main group companies

The main group companies are:

1. TOTO S.p.A. Costruzioni Generali, which operates in the construction sector;
2. Strada dei Parchi S.p.A., which operates in the construction and management of toll motorways and related road services of the Rome-Teramo-Pescara motorways;
3. Renexia S.p.A., a sub-holding which develops and manages the renewable energy business unit and, through its subsidiaries, holds permits for constructing and operating wind and photovoltaic plants;
4. Alitec S.p.A., which operates in the purchase, construction and management of real estate;
5. Aircraft Purchase Fleet Ltd., Irish company based in Dublin, which operates in the aircraft lease sector;
6. Infraengineering S.r.l., which was established for the purpose of carrying out feasibility studies, research, consultancy, design, work management, assessments of the technical-economic adequacy for public and private works;
7. Parchi Global Services S.p.A., which provides services to motorway network operators;
8. Toto Real Estate S.p.A., a real estate company that manages, promotes and coordinates operations concerning the real property assets it holds.

### Format and content of the consolidated financial statements

The consolidated financial statements at 31 December 2017, drawn up on the basis of the parent and the consolidated companies being a going concern and as per the 2018 - 2022 business plan, have been prepared in accordance with Legislative decree no. 127 of 9 April 1991, transposed into Italian law to implement EEC Directive VII.

These consolidated financial statements have been prepared in accordance with the basis of preparation set out in articles 2423-ter, 2424 and 2425 of the Italian Civil Code supplemented by Legislative decree no. 127/91.

The consolidated financial statements comprise a balance sheet, a profit and loss account, a cash flow statement and these notes and are accompanied by a directors' report.

Reference should be made to the directors' report for information on the company's operations, significant post-balance sheet events and relationships with subsidiaries and associates that are not included in the scope of consolidation.

## Accounting policies and measurement criteria

### Accounting policies

The most relevant accounting policies and measurement criteria applied by the group in preparing the consolidated financial statements at 31 December 2017 are described below.

They comply with those used to prepare prior year consolidated financial statements.

The most significant accounting policies are described below.

### Consolidation

The consolidated financial statements are based on the financial statements of TOTO HOLDING S.p.A. (the parent) and the companies in which the parent directly or indirectly holds a controlling interest or exercises control pursuant to article 2359 of the Italian Civil Code.

The reporting date of the consolidated financial statements is 31 December 2017, which coincides with that of the financial statements of the parent TOTO HOLDING S.p.A.

For the purposes of consolidation, the financial statements of each company, approved by the respective shareholders and/or administrative bodies, reclassified and adjusted, where necessary, to comply with the group's accounting policies and presentation criteria, were used.

The consolidation policies and measurement criteria used by TH in preparing these consolidated financial statements, in accordance with Legislative decree no. 127/91 are illustrated below.

Consolidated assets and liabilities have been considered in full.

All subsidiaries have been consolidated on a line-by-line basis.

The carrying amount of consolidated investments has been eliminated together with the net equity of the investees on a line-by-line basis. In the event of investments of less than 100%, the portion of net equity or net profit/(loss) for the year (consolidated profit or loss) attributable to minority interests is recognised in a specific caption of net equity and in the profit and loss account.

The differences between the carrying amount of the investment and the net equity of the consolidated companies, calculated with reference to the existing carrying amounts on the date in which the company was consolidated for the first time, have been allocated to goodwill arising from consolidation when they could not be allocated to individual items. These differences have been determined with reference to the carrying amounts existing on the date in which:

- The company was consolidated for the first time.
- Additional shares/quotas were acquired and/or subscribed.
- Changes in the subsidiaries' net equity took place after the first consolidation with the exception of changes in the net profit/(loss) for the year.

Goodwill is recognised only when acquired against consideration, its amount can be calculated and it is originally comprised of charges and costs of a long-term nature which ensure future economic benefits and meet the principle of cost recoverability. This item is amortised over not more than five years on a straight-line basis over the term of the works acquired as part of the acquisition of a business unit (see TOTO CG sub-consolidated).

Intercompany gains, even if realised prior to the first consolidation, have been reversed.

Investments in associates have been measured using the equity method as stated in article 2426 of the Italian Civil Code, save in the event they were measured at cost since irrelevant for the purposes of a fair presentation of the financial statements.

Investments in other companies classified under financial fixed assets are measured at purchase or subscription cost.

Infragroup receivables and payables, costs and revenues, profits and losses have been eliminated.

The financial statements of the consolidated companies were prepared using the same applicable accounting standards and the same currency, translating financial statements prepared in US dollars into Euro.

#### Measurement criteria

The criteria used in preparing the consolidated financial statements at 31 December 2017 are those provided for by the Italian Civil Code, supplemented and interpreted by the accounting standards issued by the OIC (Italian Accounting Standard Setter).

Items have been measured in accordance with the general principles of prudence and on an accruals basis, assuming the company is able to continue as a going concern as per the group's business plan for the 2018 - 2022 period.

The preparation of financial statements requires the calculation of estimates which affect reported assets and liabilities and related disclosure. Actual results may differ from these estimates. These estimates are regularly reviewed and the effects of any changes, except for those arising from incorrect estimates, are recognised in the profit and loss account of the relevant year, when the changes only affect said year, and also in subsequent years when they affect both the current and subsequent years. [OIC 29.37-38]

The general accounting principles and measurement criteria used and described below are those in force at the reporting date and consider the changes to the law introduced by Legislative decree no. 139/2015 which became applicable on 1 January 2016.

In addition to the attachments required by law, the "Reconciliation between the net profit/(loss) and net equity of the parent and the respective amounts resulting from the consolidated financial statements" (annex 4) and the "Statement of changes in the group's consolidated net equity" (annex 5) are also presented.

All amounts are stated in thousands of euro, unless specified otherwise. The euro is the group's functional and presentation currency.

Each item of the consolidated financial statements is accompanied by corresponding prior year figures for comparison purposes.

Furthermore, pursuant to article 2423-ter.2 and 3 of the Italian Civil Code and in accordance with OIC 17.41, for the sake of improved clarity, more details were provided about "Assets under construction and payments on account" and a specific item, "Freely transferable assets" was also added.

#### Waivers

None of the waivers permitted by article 2423-bis.6.1, of the Italian Civil Code and the standard set out in article 2423.4 have been used.

The following measurement criteria were adopted.

### **Fixed assets**

#### ***Intangible fixed assets***

Intangible fixed assets represent costs and expenses of a long-term nature. They are recognised at the cost actually incurred, net of amortisation.

Amortisation is systematically charged each year according to the asset's residual useful life. If permanent impairment occurs, the asset is correspondingly written down regardless of the amortisation already charged. If, in following years, the reasons for the write-down no longer apply, the original amount is reinstated, adjusted by amortisation only.

Start-up and capital costs and development costs of a long-term nature are recognised under assets with the approval of the Board of Statutory Auditors of each company and amortised over not more five years (article 2426.1.5).

Trademarks and similar rights are amortised over 20 years.

In 2011, a controlling interest was acquired in Strada dei Parchi S.p.A., a company which until the previous year was consolidated using the equity method. From 2011, because of the controlling interest, the company has been fully consolidated and the measurement difference has been allocated to concessions and amortised over the residual term of the concession, i.e. 20 years.

### ***Tangible fixed assets***

These are recognised at purchase cost and adjusted by the corresponding accumulated depreciation.

Depreciation, charged to the profit and loss account, is calculated based on the use, allocation and expected useful life of the assets. If permanent impairment occurs, the asset is correspondingly written down regardless of the depreciation already charged. If, in following years, the reasons for the write-down no longer apply, the original amount is reinstated adjusted by depreciation only.

Assets under finance lease have been recognised in accordance with IAS 17 rather than in accordance with the Italian Civil Code. The amount paid to the lease company for the asset leased to group companies has been recognised under tangible fixed assets, net of the depreciation charged at 31 December 2014.

The revaluations refer to revaluation laws nos. 576/75 and 72/83 and the mandatory revaluation of companies' properties under Law no. 413/91 and Law decree no. 185/08.

Assets under construction have been recognised at cost which corresponds to the advances paid to the supplier based on contractual provisions.

In 2017, no discretionary or voluntary revaluations of assets were carried out.

### ***Tangible fixed assets – Freely transferable assets***

*Strada dei Parchi S.p.A.*

This item includes the assets to be transferred to the Grantor when the concession period ends, which is recognised at purchase cost, inclusive of any directly attributable ancillary charges. The cost of assets under construction is recognised under "Assets under construction".

"Freely transferable assets" comprise capitalised technical personnel costs, costs for improving, changing, updating and renewing existing assets, provided they result in a significant and measurable increase in their capacity, productivity or safety or they extend their useful life. Freely transferable assets also include the financial charges incurred during the period the assets were constructed, incurred on capital borrowed specifically for acquiring the assets. Interest payable was calculated using the spot interest rate applied to project financing.

As of these consolidated financial statements, the accruals to accumulated depreciation is no longer based on the residual useful life of the assets, using the amortisation method at variable rates, annually equal to the portion of the payable for the concession fee repaid to the grantor. It will now be based on the depreciation charges set out in the BP which envisages variable rates which reflect the trend of traffic revenues, net of directly attributable costs and expenses.

The table below compares the old rates with the new ones, calculated using the above method. They were applied to the carrying amount of freely transferable assets at 31 December 2016.

Year	Old rate	New rate	Difference
2017	4.76%	<b>3.15%</b>	-1.61%
2018	5.04%	<b>3.51%</b>	-1.54%
2019	5.35%	<b>3.98%</b>	-1.36%
2020	5.67%	<b>4.50%</b>	-1.16%
2021	6.01%	<b>5.09%</b>	-0.92%
2022	6.37%	<b>5.71%</b>	-0.65%
2023	6.75%	<b>6.38%</b>	-0.37%
2024	7.16%	<b>7.11%</b>	-0.04%
2025	7.58%	<b>7.83%</b>	0.24%
2026	8.04%	<b>8.59%</b>	0.55%
2027	8.52%	<b>9.49%</b>	0.97%
2028	9.03%	<b>10.47%</b>	1.43%
2029	9.58%	<b>11.52%</b>	1.95%
2030	10.15%	<b>12.66%</b>	2.51%
	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>

The accounting estimate was changed in order to better represent the matching of future economic benefits and operating costs. Indeed, the actual balances of the latter are in line with those included in the 2009 BP, while revenues were considerably lower than expectations. Furthermore, the forecasts about future traffic do not point to a recovery of said revenues. The decrease is due to several factors, including, in particular (i) the economic crisis and (ii) the delay in the approval of the update of the new BP.

Had SDP not changed the depreciation rates, the net profit for the year and net equity, gross of the tax effect, would have been lower by € 16.7 million (€ 13.5 million, net of the tax effect).

Ordinary maintenance costs incurred for keeping assets in good working order are recorded in the profit and loss account when incurred, since they are recurring expenses and do not increase the carrying amount of the assets. Non-recurring maintenance expenses for work on technological systems planned for the next few years are set aside in the "Provision for restoring and replacing freely transferable assets".

In the event of permanent impairment of the carrying amount at the reporting date, the assets are written down to take into account this lower value. If, in following years, the reasons for the write-down no longer apply, the original amount is reinstated up to cost, less accumulated depreciation.

### ***Financial fixed assets***

These consist of investments in non-consolidated investees and include shares, financial receivables, bonds and guarantee deposits.

### *Equity investments*

Investments in subsidiaries (not consolidated) recognised under financial fixed assets are measured at purchase or subscription cost. In the event of subscriptions through contributions, this amount is justified by appraisal as required by the Italian Civil Code or obtained by the Directors.

Investments in associates are measured using the equity method. Associates that are irrelevant for the purposes of giving a true and fair view of the group's financial position and results of operations are recognised at cost.

Other investments are recognised at purchase or subscription cost.

### *Securities*

Non-current securities, which are intended to stay in the company's portfolio until their natural maturity, are stated at purchase cost. Securities are written down when impaired.

Current securities are measured at purchase cost or their realisable value based on market trends by applying the specific cost, whichever is lower.

### ***Inventory***

As a result of the activities carried out by the companies included in the scope of consolidation, inventory consists of:

#### *Raw materials*

In the construction sector, raw materials are measured at their purchase cost or realisable (replaceable) value, whichever is lower, based on market trends. Purchase cost is equal to the latest price which reflects the average weighted cost.

In the concession sector, raw materials are measured at purchase cost, which is calculated using the average weighted cost method, and the realisable value based on market trends.

Obsolete or slow-moving inventory is measured based on the possible residual use or realisable value.

#### *Work in progress*

Work in progress is measured as follows:

Italian contracts: despite the binding agreement between the parties and the company's ability to reliably estimate the contract profit/loss, contract work in progress is recognised on a percentage of completion basis, whereby costs, revenues and margins are recognised based on the work performed.

The percentage of completion is obtained by applying the physical measurement method.

Foreign contracts: given the existence of an internal procedural system which generates reliable and updated estimates of total contract revenues and costs, work in progress is measured on a cost-to-cost basis. This method better reflects the results of this type of contracts.

The contract costs incurred at the reporting date are proportional to the total estimated contract costs. The percentage earned is subsequently applied to the contract's total estimated revenues, obtaining the amount to be allocated to the work performed and, accordingly, the revenues earned on the same date.

Measurement reflects the best estimate of works at the reporting date. The assumptions underlying measurements are periodically updated. Any financial effects are recognised in the year the update takes place.

Contract revenues include: the contractually-agreed consideration, formalised variations to works, price adjustments, claims requested and incentives, to the extent that it is reasonably certain that they can be measured reliably.

In accordance with OIC document no. 23 of 22 December 2016, pre-operating costs have been recognised under inventory. These costs are considered in the contract profit margin based on the progress of works.

Price adjustments are stated in accordance with article 1 (550) of Law no. 311/04 (2005 Finance Act) and the subsequent decrees of the Ministry of Infrastructure and Transport of 30 June 2005, 11 October 2006, 2 January 2008 and 9 May 2009, which provided for annual price variations on the main materials used in the construction sector.

Additional fees have been recognised in accordance with the principle of prudence; consequently, the repayment of the greater costs incurred or the greater consideration are included under contract revenues only to the extent of the amounts which can be reasonably identified and calculated. Claims are valued considering the estimates prepared by the specific company areas (based on the type of each claim, including assessments of the legal grounds and financial capacity) and the fact that for certain tenders an initial claim definition procedure has already been concluded. The reasons behind the "Claims" valuations are therefore similar to those established in previous arbitration procedures.

Finished goods are measured at the lower of carrying amount and realisable value.

#### *Finished goods*

Finished goods are measured at the lower of carrying amount and realisable value.

#### ***Securities (classified under current assets)***

Securities stated under current assets are recognised at purchase cost or their realisable value based on market trends, whichever is lower.

#### ***Receivables***

The receivables, which are classified under "Financial fixed assets" or "Current assets", are recognised at amortised cost, considering the time factor and the estimated realisable value. In particular, the opening carrying

amount is the nominal amount of the receivable, net of all bonuses, discounts and allowances and inclusive of any costs directly attributable to the transaction that generated the receivable. The transaction costs, any commission income or expense and any difference between the initial amount and the nominal amount upon maturity are included in the calculation of the amortised cost, using the effective interest method. This item also includes the receivables related to invoices to be issued.

Pursuant to Legislative decree no. 139/15, at 31 December 2016, the receivables that already existed at 31 December 2015 are recorded at their nominal amount.

Furthermore, according to the company, the effects of the application of the amortised cost method and of discounting are negligible when the receivables are due within one year and each difference between the opening balance and the nominal amount at the due date is not significant.

A specific bad debt provision is accrued to cover possible insolvency risks. The accrued amount is checked periodically and, in any case, at each reporting date, considering existing or probable bad debts and the general economic, sector and country risk conditions.

Current receivables also include deferred tax assets, calculated based on the criteria set out in the note to income taxes, to which reference should be made.

Grants related to assets are recognised on an accruals basis.

### ***Liquid funds***

Liquid funds are recognised at their nominal amount which reflects their estimated realisable value and consists of the cash in bank accounts. Petty cash is recognised at its nominal amount.

### ***Prepayments and accrued income, accrued expenses and deferred income***

These are calculated on a matching and accruals basis, in order to correctly recognise the year's portion of income and expenses common to two or more years.

### ***Provisions for risks and charges***

These are set aside to cover losses or payables which are certain or likely to occur, but the amount or due date of which is undetermined at the reporting date.

Contingent liabilities are recognised and provided for when considered probable and the related amount can be reasonably estimated.

The amounts accrued represent the best possible estimate based on the data available at the time the financial statements were prepared. Risks for which a liability is only possible are disclosed in the notes if significant, without any amount being set aside to the provision for risks and charges.

These provisions are measured in accordance with the general principles of prudence and accruals basis of accounting. No generic provisions for risks were accrued as there were no economic reasons for doing so.

Furthermore, for the motorway concessions sector, considering the progress of investments and the estimates carried out by top management to take into account the need to incur non-recurring maintenance costs in the next few years, increasing the carrying amount of assets, accruals were made to the “provision for restoring and replacing freely transferable assets”, which represents the wear-and-tear of these assets at the reporting date.

### ***Derivatives***

Derivatives are recognised on the date the contract is signed, from the moment the company is subject to the related rights and obligations.

Pursuant to article 2426.1.11-bis of the Italian Civil Code and OIC 32, derivatives, including those embedded in other financial instruments, are measured at fair value at both initial recognition and each subsequent reporting date. Fair value recognition and differences compared to the prior year are recognised using different methodologies which depend on whether the transaction qualifies (and is effectively designated) as a financial hedge.

#### **Transactions which do not qualify (or are not designated) as hedges**

If the transaction does not qualify (or is not designated) as a hedge, fair value changes are recognised in section D) “Adjustments to financial assets and liabilities” of the profit and loss account. In accordance with article 2426.1.11-bis of the Italian Civil Code, fair value gains on financial instruments not designated as hedges are taken to net equity undistributable reserves.

#### **Transactions which qualify (or are designated) as hedges**

The group enters into derivatives mainly to hedge the interest rate risk.

A derivative qualifies for hedge accounting when the following criteria are met:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items under OIC 32;
- there is a close documented relationship between the characteristics of the hedged instrument or transaction and the hedging instrument pursuant to article 2426.1.11-bis of the Italian Civil Code. The documentation refers to the formal designation of the hedging relationship and the group's management objective and strategy for undertaking the hedge;
- the hedging relationship meets the hedge effectiveness requirements.

The relationship is checked from a qualitative - checking that the main elements of the hedging instrument and the hedged item match or are closely in line - and quantitative point of view. When hedging relationships only refer to derivatives with characteristics very similar to those of the hedged item (“simple hedges”) and the derivative has been entered into at market conditions, the hedging relationship is considered effective by just checking that the main elements of the hedging instrument and the hedged item (nominal amount, settlement date of cash flows, due date and underlying variable) match or are closely in line and the counterparty's credit risk does not significantly affect the fair value of the hedging instrument and hedged item.

Eligibility criteria are checked regularly and, at each reporting date, the company assesses whether the hedging relationship is still effective.

Hedge accounting ceases prospectively when any of the following occurs:

- a) the hedging instrument is sold, terminated or exercised (with no replacement envisaged in the original hedging strategy);
- b) the hedge no longer meets hedge accounting requirements.

The group enters into cash flow hedges.

### **Cash flow hedges**

These hedges are agreed when the objective of the hedge is to limit the exposure to variability in cash flows that is attributable to a recognised asset or liability, a firm commitment or a highly probable forecast transaction. The cash flow hedge related to a recognised asset or liability, a firm commitment or a highly probable forecast transaction is recognised at fair value in the balance sheet and a balancing entry is recognised in caption A) VII "Hedging reserve" to the extent of the effective hedge, whereas the ineffective portion, calculated for hedging relationships other than simple hedges, is recognised in section D) of the profit and loss account.

In a cash flow hedge related to a recognised asset or liability, a highly probable forecast transaction or a firm commitment, the amount of the reserve is reclassified to the profit and loss account in the same years during which the hedged cash flows affect the net profit or loss and to the same item affected by the expected cash flows. In a cash flow hedge related to a highly probable forecast transaction or a firm commitment which subsequently results in the recognition of a non-financial asset or liability, the group companies, upon recognising the asset or liability, reclassify the hedging reserve from net equity to the carrying amount of the asset (to the extent of its recoverable amount) or liability. However, when a reserve is negative and the companies do not expect to recover the entire loss or part of the reserve in one or several future years, the companies take the reserve (or part thereof) that is not expected to be recovered, directly to the profit and loss account.

### **Fair value measurement**

The company measures the fair value of the recognised financial instruments by maximising the use of observable inputs, while minimising the use of unobservable inputs, based on the following hierarchy:

<b>Level</b>	<b>Description</b>
1	quoted price (for financial instruments for which an active market can be easily identified)
2	amount derived from the quoted price of a component of the instrument or a similar instrument (when the quoted price cannot be easily identified for an instrument, but can be identified for its components or for a similar instrument)
3	amount derived from generally-accepted valuation models and techniques which can reasonably approximate fair value (for the financial instruments for which an active market cannot be easily identified)

### ***Employees' leaving entitlement***

This represents the actual amount due to employees in accordance with the law and current national labour agreements, taking into account all forms of remuneration of an ongoing nature.

The provision is the total of the individual amounts accrued (for companies with more than 50 employees up until 31 December 2006) by employees at the reporting date and relevant annual revaluations, net of any advances paid, and is equal to the amount that would be due to employees if they were to leave the company at that date.

For group companies with more than 50 employees, the provision does not include the indemnities accrued from 1 January 2007 allocated to supplementary pension schemes under Legislative decree no. 252 of 5 December 2005 (or transferred to INPS (Italian Social Security Institute) treasury).

### ***Payables***

Payables arising from the purchase of goods are recognised upon substantial transfer of the significant risks, charges and benefits of ownership. Payables relating to services are recognised once the services have been delivered, i.e., when they have been carried out.

Loans and borrowings and payables unrelated to the procurement of goods and services are recognised when the company has an obligation vis-à-vis the counterparty, identified based on legal and contractual provisions.

Payables for advances from customers are recognised for goods or services not yet provided.

Payables are recognised at amortised cost, considering the time value of money.

When the interest rate of the transaction does not differ significantly from the market rate, the payable is initially recognised at its nominal amount, net of all transaction costs and all bonuses, discounts and allowances directly arising from the transaction which generated the payable. The transaction costs, such as borrowing costs, any commission income or expense and any difference between the opening amount and the nominal amount upon maturity are allocated over the life of the payable, using the effective interest method.

The effects of the application of the amortised cost and discounting are deemed irrelevant when payables are due within one year, also considering all contractual and substantial aspects in place upon recognition of the payable, and transaction costs and any other difference between the original and settlement amounts at the due date are insignificant. In this case, discounting is not applied and interest is calculated at nominal amount and transaction costs are recognised under financial charges.

### ***Translation of foreign currency amounts***

Receivables and payables originally expressed in foreign currencies, recognised at the exchange rates in force on the date they arose, are adjusted to closing rates or, in the event of hedges, at the contractual forward rate.

In particular, current assets and current liabilities and non-current financial receivables are recognised at the spot exchange rate on the reporting date. Gains and losses from translating receivables and payables are taken to profit and loss account caption 17 bis Exchange rate gains and losses.

Fixed assets in foreign currency are instead recognised at the exchange rate in force at the time of their purchase or at the lower reporting date amount only if the negative changes result in permanent impairment of the fixed assets.

### ***Revenues and costs***

They are recognised on an accruals basis when the service is provided.

With respect to tolls, also due to the effect of network interconnection and the necessary allotments among the various operators, part of the revenues for the last part of the year were determined based on reasonable estimates.

Revenues of a financial nature and those deriving from the provision of services are recognised on an accrual basis.

Costs for the purchase of materials are recognised upon transfer of title, which generally takes place at the time of delivery or shipment.

Costs of a financial nature and those deriving from the purchasing of services are recognised on an accrual basis.

### ***Current and deferred taxes***

Taxes are provided for on an accruals basis; therefore, this item reflects accruals for taxes paid or to be paid during the year, calculated under current applicable rates and laws.

Deferred tax assets of the year are recognised only in the case of temporary differences when it is reasonably certain that there will be a lower tax charge in the future.

Deferred taxes, deriving from income items subject to deferred taxation, are only recognised when the income tax is recoverable in future years in respect of deductible temporary differences, or in the case of tax losses carried forward.

Starting from 2009, Toto Holding S.p.A. and its subsidiaries Parchi Global Services S.p.A., Alitec S.p.A., Toto S.p.A. Costruzioni Generali and, from 2010, IMC S.r.l. and Infraengineering S.r.l., from 2011, InterSun S.r.l., Renexia S.p.A., Azienda Aviagricola S.r.l., from 2014, Toto RE, from 2015, Renexia Service S.r.l., from 2016, Eurasia S.r.l., and from 2017, Toto Tech S.r.l., have opted to participate in the national tax consolidation scheme, which allows for IRES

(corporate income tax) to be calculated according to a taxable basis corresponding to the total of positive and negative taxable amounts of the individual participating companies.

Financial transactions between the consolidating parent and its subsidiaries, in addition to their mutual responsibilities and obligations, are set out in the Consolidation Regulations for group companies signed on 16 June 2009, as subsequently integrated and amended.

### ***Deferred tax assets and liabilities***

Deferred taxes are calculated using the global allocation method, taking into account the aggregate amount of all temporary differences, based on the actual rate for the last year.

Deferred tax assets are recognised since it is reasonably certain that the company will report a taxable profit in future years equal to or more than the amount of deductible temporary differences on which they were calculated.

### ***Finance leases***

Finance leases are recognised using the financial method as set out in IAS 17 and OIC 17. 105. The accounting effects of this accounting treatment on tangible fixed assets, loans and borrowings to other financial backers, the relevant profit and loss account items (including taxes) and net equity are shown in the individual tables and in annex 4.

For information regarding the significant events that took place in 2017, reference should be made to the Directors' report.

## **Scope of consolidation**

In addition to the parent, TOTO Holding S.p.A., the scope of consolidation includes its direct and indirect subsidiaries, which are consolidated on a line-by-line basis. Additional information is provided in Annex 1. Companies are consolidated when TOTO Holding S.p.A. exercises control as a result of its direct or indirect ownership of a majority of the voting rights of the relevant entities, or because it is able to exercise dominant influence given its power to govern the entity's financial and operating policies and obtain the related benefits, also regardless of its percentage of interest.

Entities are included in the scope of consolidation from the date in which the group acquires control. Entities are excluded from the scope of consolidation from the date in which the group loses control.

The Irish companies prepare their financial statements in dollars (USA). The exchange rates applied during the year for translating these financial statements with functional currencies other than the euro are those published by the Bank of Italy, which are shown in the table below:

Currency	2017		2016	
	2017	Average exchange rate 2017	2016	Average exchange rate 2016
Euro/US Dollar	1.19930	1.12970	1.05410	1.10690
Euro/Tunisian Dinar	2.97370	2.73070	2.44989	2.37629

The scope of consolidation underwent a change from 31 December 2016 as a result of:

- the consolidation of Indaco S.r.l. and Volere Volare S.r.l. acquired in October 2017 by Renexia S.p.A.;
- the consolidation of Pontepo Scarl in the sub-consolidated financial statements of TOTO S.p.A. Costruzioni Generali, a consortium company set up in 2017 by Toto S.p.A. Costruzioni Generali (77.73%) and Vezzola S.p.A. (22.27%) to perform the works related to the contract assigned by the Mantua Province ("Ponte sul Po" - Po bridge).

The Italian company "Toto S.p.A. in association with Taddei S.p.A. Scarl", operating in the construction BU, was excluded from the consolidation area as its consolidation would be irrelevant for a fair presentation of the group.

The associates in which TOTO Holding S.p.A. directly or indirectly holds a more than a 20% investment and which were not consolidated are:

- San Benedetto Val di Sambro Scarl, excluded due to limited control;
- Intermodale S.r.l., excluded due to limited control;
- Novigal S.r.l., excluded due to limited control;
- Arabona Scarl, excluded due to limited control.

The financial statements utilised for consolidation purposes are those of the individual companies at 31 December 2017.

## Workforce

The following table shows the changes in the group's headcount broken down by category in 2017.

Description	2017	2016	Changes
Senior managers	40	31	9
White collar workers and Middle managers	441	410	31
Blue collars/Toll Team	487	502	(15)
Other	6	0	6
<b>Total</b>	<b>974</b>	<b>943</b>	<b>31</b>

## Balance sheet

### Intangible fixed assets

In 2017, intangible fixed assets changed as follows:

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Amort.	2017	Changes
Start-up and capital costs	4,853	9	2,357	0	0	212	2,293	(2,560)
Industrial patents and intellectual property rights	623	456	0	0	0	327	752	129
Concessions, licences and trademarks	36,353	724	0	0	0	2,610	34,467	(1,886)
Goodwill	2,770	0	0	0	0	1,385	1,385	(1,385)
Assets under development and payments on account	2,646	0	0	0	0	0	2,646	0
Other	11,025	4	0	0	0	987	10,042	(983)
Goodwill arising on consolidation	0	0	0	0	0	0	0	0
<b>Total</b>	<b>58,270</b>	<b>1,193</b>	<b>2,357</b>	<b>0</b>	<b>0</b>	<b>5,521</b>	<b>51,585</b>	<b>(6,685)</b>

### START-UP AND CAPITAL COSTS

The breakdown of this caption is as follows:

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Start-up and capital costs	2,293	4,853	(2,560)
<b>Total</b>	<b>2,293</b>	<b>4,853</b>	<b>(2,560)</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Amort.	31/12/2017	Changes
Start-up and capital costs	4,853	9	2,357	0	0	212	2,293	(2,560)
<b>Total</b>	<b>4,853</b>	<b>9</b>	<b>2,357</b>	<b>0</b>	<b>0</b>	<b>212</b>	<b>2,293</b>	<b>(2,560)</b>

At 31 December 2017, this item mainly related to Alitec S.p.A. (€ 2,269 thousand) and referred to the property renovation project in the area owned by the company. It comprises the costs (such as licenses, strategic environmental assessment studies, support with design activities and use of the area, environmental surveys, land reclamation, etc.) incurred during the year. The € 2,357 thousand is due to the write-down of part of the costs incurred to purchase licenses. These licenses cover a floor capacity of approximately 31,750 square metres, while the current renovation project refers to a total area earmarked for commercial activities of approximately 13,500 square metres. Therefore, the cost of the surface area (approximately 18,250 square metres) no longer included in the project was written down.

Amortisation amounts to € 212 thousand.

## DEVELOPMENT COSTS

At year end, development costs had a nil balance.

## INDUSTRIAL PATENTS AND INTELLECTUAL PROPERTY RIGHTS

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Software	752	623	129
<b>Total</b>	<b>752</b>	<b>623</b>	<b>129</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./Contr.	Deconsolid.	Amort.	31/12/2017	Changes
Industrial patents and intellectual property rights	623	456	0	0	0	327	752	129
<b>Total</b>	<b>623</b>	<b>456</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>327</b>	<b>752</b>	<b>129</b>

The balance of this item refers to the costs incurred for acquiring basic software or for the related applications and licences for the group's integrated management accounting system.

## CONCESSIONS, LICENCES, TRADEMARKS AND SIMILAR RIGHTS

The caption is broken down as follows:

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Concessions (Allocation of goodwill arising on consolidation - Strada dei Parchi S.p.A.)	32,840	35,366	(2,526)
Mini wind authorisation	973	301	672
Other	654	686	(32)
<b>Total</b>	<b>34,467</b>	<b>36,353</b>	<b>(1,886)</b>

The main changes are as follows:

- the decrease of € 2,526 thousand in the amortisation charge for the year (calculated on the basis of the residual term of the concession – 20 years starting from 2011) of the difference in valuation of the investment in Strada dei Parchi S.p.A. During 2011, the TOTO Group became the majority shareholder of Strada dei Parchi S.p.A. and the difference in valuation (€ 50,524 thousand) was allocated to Concessions.
- the increase of € 672 thousand related to the acquisition of Indaco S.r.l. and Volere Volare S.r.l. which own the connection quotations for the installation of turbines (mini wind turbines) in the Melfi municipality. The increase is the price paid which represents the value of the authorisations held by the companies. It will be amortised over the concession of the mini wind farms, once they are developed.

## GOODWILL

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Goodwill	1,385	2,770	(1,385)
<b>Total</b>	<b>1,385</b>	<b>2,770</b>	<b>(1,385)</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Amort.	31/12/2017	Changes
Goodwill	2,770	0	0	0	0	1,385	1,385	(1,385)
<b>Total</b>	<b>2,770</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,385</b>	<b>1,385</b>	<b>(1,385)</b>

This item refers to the 2014 acquisition of the business units of Imprese Co.E.Stra. S.p.A. (€ 2,040 thousand) and L'Avvenire 1921 (€ 1,539 thousand), which form part of the joint venture which, together with S.E.C.O.L. S.p.A. in 2015 (€1,961 thousand) form part of the Joint Venture that was awarded the contract by ANAS for the executive design and execution of the variation to state road 1 Aurelia: access roads to the La Spezia harbour, totalling € 125 million. Amortisation will be charged on a straight-line basis over not more than five years starting from 2015.

Goodwill was recognised with the approval of Toto Costruzioni Generali S.p.A.'s Board of statutory auditors.

## ASSETS UNDER DEVELOPMENT AND PAYMENTS ON ACCOUNT

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Assets under development and payments on account	2,646	2,646	0
<b>Total</b>	<b>2,646</b>	<b>2,646</b>	<b>0</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Amort.	31/12/2017
Assets under development and payments on account	2,646	0	0	0	0	0	2,646
<b>Total</b>	<b>2,646</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,646</b>

Assets under development are unchanged in 2017.

## OTHER

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Other	10,042	11,025	(983)
<b>Total</b>	<b>10,042</b>	<b>11,025</b>	<b>(983)</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Amort.	31/12/2017
Other	11,025	4	0	0	0	987	10,042
<b>Total</b>	<b>11,025</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>987</b>	<b>10,042</b>

At 31 December 2017, this item did not record significant increases. It went from € 11,025 thousand at 31 December 2016 to € 10,042 thousand.

Amortisation is the most significant item of the year (€ 987 thousand). It is substantially attributable to SDP (€ 942 thousand) and refers to project financing costs capitalised in 2011, including agency, origination, structuring and up-front fees and due diligence costs.

### Tangible fixed assets

The table below shows the balances of tangible fixed assets at 31 December 2017 and their changes from the previous year.

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Depr.	31/12/2017	Changes
Land and buildings	82,870	897	20	2,539	0	1,234	85,052	2,182
Plant and machinery	11,370	2,108	222	0	0	1,440	11,816	446
Industrial and commercial equipment	715	1,983	32	0	0	768	1,898	1,183
Other assets	2,920	2,362	259	0	0	1,119	3,904	984
Freely transferable assets	909,998	1,181	0	136,369	0	33,027	1,014,521	104,523
Assets under construction	193,172	112,817	0	(139,391)	0	0	166,598	(26,574)
Aircraft	0	0	0	0	0	0	0	0
<b>Total</b>	<b>1,201,045</b>	<b>121,348</b>	<b>533</b>	<b>(483)</b>	<b>0</b>	<b>37,588</b>	<b>1,283,789</b>	<b>82,744</b>

## LAND AND BUILDINGS

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Land	55,122	55,108	14
Buildings	29,930	27,762	2,168
<b>Total</b>	<b>85,052</b>	<b>82,870</b>	<b>2,182</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Deprec.	31/12/2017	Changes
Land and buildings	82,870	897	20	2,539	0	1,234	85,052	2,182
<b>Total</b>	<b>82,870</b>	<b>897</b>	<b>20</b>	<b>2,539</b>	<b>0</b>	<b>1,234</b>	<b>85,052</b>	<b>2,182</b>

This item (€ 85,025 thousand) increased by € 2,182 thousand on 31 December 2016 (€ 82,870 thousand). The increase is mainly due to the depreciation of the year (€ 1,234 thousand) which partially offset the € 2,539 thousand increase due to the reclassification of TOTO RE from assets under construction following the start-up of the entire building owned by the company and leased to TOTO CG.

Land can be analysed as follows:

- € 43,169 thousand related to the carrying amount of the land owned by Alitec S.p.A.;
- € 4,120 thousand related to the carrying amount of the land recognised in the financial statements of Toto S.p.A. Costruzioni Generali;
- € 7,290 thousand related to the carrying amount of the land recognised in the financial statements of TOTO RE;
- € 504 thousand related to the carrying amount of the land recognised in the financial statements of Azienda Aviagricola Abruzzese S.r.l.;
- € 39 thousand related to the carrying amount of the land recognised in the financial statements of Toto Holding S.p.A.

Buildings refer to (i) € 23,378 thousand recognised in the financial statements of TOTO RE; (ii) € 6,531 thousand recognised in the financial statements of Toto S.p.A. Costruzioni Generali and its subsidiaries operating in the construction sector; (iii) € 18 thousand to the buildings owned by Parchi Global Services S.p.A.; (iv) € 3 thousand to the site construction buildings owned by Renexia Services S.r.l.

As a guarantee for the loans granted by the banks to some group companies, owners of land and buildings, a mortgage was placed on them.

## PLANT AND MACHINERY

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Plant and machinery	11,816	11,370	446
<b>Total</b>	<b>11,816</b>	<b>11,370</b>	<b>446</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Deprec.	31/12/2017	Changes
Plant and machinery	11,370	2,108	222	0	0	1,440	11,816	446
<b>Total</b>	<b>11,370</b>	<b>2,108</b>	<b>222</b>	<b>0</b>	<b>0</b>	<b>1,440</b>	<b>11,816</b>	<b>446</b>

This item (€ 11,816 thousand) is substantially in line with the prior year-end balance (€ 11,370 thousand).

"Plant and machinery" also include machinery and equipment used in the work sites of companies included in the Construction BU. These include: demolisher hammers, air pads for handling systems, self-lifting platforms, conveyor belts, tunnel boring machines, etc.

Depreciation of the year totalled € 1,440 thousand.

Pursuant to article 2427.1.2, of the Italian Civil Code and OIC 16.E.IV, no guarantees, pledges or liens exist in favour of financial credit institutions on the plants, works and operating assets of Intersun S.r.l. constructed, acquired or deriving from the loan agreement entered into for constructing the photovoltaic park.

As highlighted in other sections of these financial statements, the leases were recognised using the financial method in accordance with IAS 17 and OIC 17.105. As a result, plant and machinery include leased assets amounting to € 4,303 thousand (€ 2,972 thousand in 2016), net of accumulated depreciation. The companies using these assets are TOTO S.p.A. Costruzioni Generali, Strada dei Parchi S.p.A., TOTO Holding S.p.A., Infraengineering S.r.l., and Parchi Global Services S.p.A.

## INDUSTRIAL AND COMMERCIAL EQUIPMENT

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Industrial and commercial equipment	1,898	715	1,183
<b>Total</b>	<b>1,898</b>	<b>715</b>	<b>1,183</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Deprec.	31/12/2017	Changes
Industrial and commercial equipment	715	1,983	32	0	0	768	1,898	1,183
<b>Total</b>	<b>715</b>	<b>1,983</b>	<b>32</b>	<b>0</b>	<b>0</b>	<b>768</b>	<b>1,898</b>	<b>1,183</b>

This item increased by a net € 1,183 thousand and reflects the combined effect of:

- increases of € 1,983 thousand relating to investments during the year mainly carried out by TOTO CG and its subsidiaries in the construction sector (€ 1,463 thousand), Parchi Global Services S.p.A. (€ 31 thousand) and Strada dei Parchi S.p.A. (485 thousand);
- depreciation for the year (€ 768 thousand).

## OTHER ASSETS

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Other assets	3,904	2,920	984
<b>Total</b>	<b>3,904</b>	<b>2,920</b>	<b>984</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Deprec.	31/12/2017	Changes
Other assets	2,920	2,362	259	0	0	1,119	3,904	984
<b>Total</b>	<b>2,920</b>	<b>2,362</b>	<b>259</b>	<b>0</b>	<b>0</b>	<b>1,119</b>	<b>3,904</b>	<b>984</b>

The balance at 31 December 2017, equal to € 3,904 thousand, is the result of:

- increases of € 2,362 thousand resulting from investments by TOTO S.p.A. Costruzioni Generali (€ 1,939 thousand), Strada dei Parchi S.p.A. (€ 330 thousand), Parchi Global Services S.p.A. (€19 thousand), TOTO RE (€13 thousand), TOTO Holding S.p.A. (€ 27 thousand), Infraengineering S.r.l. (34 thousand);
- decreases of € 259 thousand essentially due to TOTO S.p.A. Costruzioni Generali (€ 248 thousand);
- depreciation for the year (€ 1,119 thousand).

The item mainly includes furniture, fittings, office machinery, cars and trucks owned by the group.

#### FREELY TRANSFERRABLE ASSETS

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Freely transferable assets	1,014,521	909,998	104,523
<b>Total</b>	<b>1,014,521</b>	<b>909,998</b>	<b>104,523</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Deprec.	31/12/2017	Changes
Freely transferable assets	909,998	1,181	0	136,369	0	33,027	1,014,521	104,523
<b>Total</b>	<b>909,998</b>	<b>1,181</b>	<b>0</b>	<b>136,369</b>	<b>0</b>	<b>33,027</b>	<b>1,014,521</b>	<b>104,523</b>

The item consists of freely transferrable assets used in motorway concessions (Strada dei Parchi S.p.A.).

They are recognised at their historical acquisition or construction cost, net of accumulated depreciation.

The accrual to accumulated depreciation reflects the depreciation rates set out in the business plan which envisages variable percentages based on the trend of traffic revenues, net of direct costs.

#### ASSETS UNDER CONSTRUCTION

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Assets under construction	166,598	193,172	(26,574)
<b>Total</b>	<b>166,598</b>	<b>193,172</b>	<b>(26,574)</b>

Description (amounts in €/000)	31/12/2016	Increases	Decreases	Reclass./ Contr.	Deconsolid.	Deprec.	31/12/2017	Changes
Assets under construction	193,172	112,817	0	(139,391)	0	0	166,598	(26,574)
<b>Total</b>	<b>193,172</b>	<b>112,817</b>	<b>0</b>	<b>(139,391)</b>	<b>0</b>	<b>0</b>	<b>166,598</b>	<b>(26,574)</b>

In 2017, assets under construction and payments on account decreased by € 26,574 thousand due to the combined effect of the following changes:

- increases during the year of € 112,817 thousand attributable to:
  - constructions transferrable to Strada dei Parchi S.p.A. (€ 109,916 thousand) which were not yet operational at 31 December 2017 or for which final approval by the Ministry of Infrastructure and Transport had not yet been obtained. Furthermore, this item also includes € 35,621

thousand, which is the cost for support in planning the work indicated in the various proposals for updating the business plan, which is currently being discussed with the MIT. Once the business plan has been approved, these ancillary charges will be capitalised on the investments made on a proportional basis.

- construction of the new group headquarters which involved investments of € 83 thousand by TOTO RE;
- costs incurred by US Wind Inc. for the development of the wind farm in the USA for € 2,431 thousand;
- other increases for € 387 thousand;
- reclassifications (decreases) related to TOTO RE (€ 2,539 thousand) to “plant and machinery” and to SDP (€136,369 thousand) to “Freely transferrable assets”.

#### REVALUATIONS OF TANGIBLE FIXED ASSETS AT YEAR END

A list is provided below of the tangible fixed assets recognised at 31 December 2017 which have undergone monetary revaluations and waivers from statutory measurement criteria.

Tangible fixed assets have been revalued in accordance with special, general or sector laws. No discretionary or voluntary revaluations have been carried out and the revaluations carried out are within the objectively determined usage value of the assets.

Description (amounts in €/000)	Revaluation as per Law no. 72/83	Revaluation 2 as per Law no. 413/91	Revaluation 3 as per Law decree no. 185/2008	Total revaluations
Land and buildings	8	207	17,947	18,162
Plant and machinery	53			53
Industrial and commercial equipment	4			4
Other assets	21			21
<b>Total</b>	<b>86</b>	<b>207</b>	<b>17,947</b>	<b>18,240</b>

## Financial fixed assets

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Equity investments	3,759	2,679	1,080
Financial receivables	6,667	9,639	(2,972)
Other securities	2,210	2,230	(20)
<b>Total</b>	<b>12,636</b>	<b>14,548</b>	<b>(1,912)</b>

### EQUITY INVESTMENTS

They amount to € 3,759 thousand (31 December 2016: € 2,679 thousand) and comprise:

- investments in the associates of TOTO S.p.A. Costruzioni Generali for € 3,722 thousand (31 December 2016: € 2,565 thousand);
- investments in other companies for € 37 thousand (31 December 2016: € 114 thousand).

### ASSOCIATES

Description (amounts in €/000)	Basis of measurement	Share/quota capital	%	Net equity	Net profit/(loss) for the year	Carrying amount
San Benedetto VdS scarl	Cost	10	36.0%	10	-	4
Intermodale S.r.l.	Cost	8,000	49.9%	5,387	(1,244)	3,715
Novigal scarl	Cost	10	33.0%	10	-	3
<b>Total</b>					<b>(1,244)</b>	<b>3,722</b>

#### SAN BENEDETTO VAL DI SAMBRO SCARL

A non-profit consortium company set up on 23 July 2007 under article 23 bis of Law no. 584/77 between Vianini S.p.A. (54%), Toto S.p.A. Costruzioni Generali (36%) and Profacta S.p.A. (10%) after the integrated tender (under article 19.1 b) of Law no. 109/94) was awarded to the joint venture formed between these three companies involving the "Upgrading of the Apennine stretch between Sasso Marconi and Barberino del Mugello – La Quercia Badia Nuova Section – Lots 6 and 7" – Contracting body Autostrade per l'Italia S.p.A.. The carrying amount of the investment is equal to its purchase cost.

#### NOVIGAL SCARL

A non-profit consortium company set up under article 96 of Presidential decree no. 554 of 21 December 1999 between Dec S.p.A. (67%) and Toto S.p.A. (33%) after the Municipality of Potenza awarded the joint venture formed between these two companies the contract involving the construction of the "Galitello Complex Road Junction" in the same Municipality.

### INTERMODALE S.R.L.

The company was established on 8 April 2008 as a special-purpose company pursuant to article 156 of Legislative decree no. 163/2003. Its business purpose is the execution of the agreement entered into by the Abruzzo region and the Joint Venture Dino Di Vincenzo & C. S.p.A. and Toto S.p.A. Costruzioni Generali on 10 January 2008. The agreement provides for, among other things, the design, construction, management and maintenance of the completion of the Val Pescara Multimodal Freight Terminal located in Manoppello (PE) and the financial and functional management and maintenance of work already carried out by Interporto Val Pescara S.p.A.

Toto S.p.A. holds 49.90% of the company's quota capital. Net equity and the net loss for the year are taken from the financial statements at 31 December 2017. The greater amount of the investment compared to the portion of net equity held is deemed recoverable based on the future income expectations set out in the business plan, under review. In this respect, given the inactivity of the Abruzzo Region, in 2017, the joint venture served a writ of summons before the Court of L'Aquila, requesting that its right to examine the business plan related to the Agreement be ascertained and acknowledged. This would enable the joint venture to immediately return to a break-even position. The case was filed under R.G. 1309/2017. The first hearing, which was originally scheduled for 7 November 2017, was postponed to 22 February 2018, then to 22 May and subsequently to 18 September 2018.

### **OTHER COMPANIES**

Name (amounts in €/000)	Valuation method	Share/quota capital	%	Carrying amount (€/000)
Compagnia Aerea Italiana S.p.A. (CAI; formerly Alitalia)	Cost	373,568	0.07%	3
Interporto Valpescara S.p.A.	Cost	540	16.65%	0
Mediapharma S.r.l.	Cost	117	5.00%	15
Janus Pharma S.r.l.	Cost	60	16.67%	4
Other minor investments	Cost			15
<b>Total</b>				<b>37</b>

This item decreased from € 144 thousand at 31 December 2016 to € 37 thousand. The € 77 thousand decrease is due to the combined effect of new subscriptions (€ 6 thousand) and write-downs (€ 83 thousand) related to the investments in Interporto Valpescara S.p.A. (€ 58 thousand), Cai (€ 13 thousand), Mediapharma S.r.l. (€ 6 thousand) and Janu Pharma S.r.l. (€ 6 thousand).

## FINANCIAL RECEIVABLES

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Receivables from associates	5,132	6,569	(1,437)
Receivables from others	1,535	3,070	(1,535)
<b>Total</b>	<b>6,667</b>	<b>9,639</b>	<b>(2,972)</b>

### RECEIVABLES FROM ASSOCIATES

They amount to € 5,132 thousand and mainly refer to the interest-bearing receivable from Intermodale S.r.l. (€ 5,054 thousand). The decrease of the year (€ 1,437 thousand) refers to the waiver of said receivable (€ 898 thousand).

### RECEIVABLES FROM OTHERS

The item is described below:

Description (amounts in €/000)	31/12/2016	Increases	Reclassifications	Decreases	31/12/2017
Receivables from others	3,070	484	0	(2,019)	1,535
<b>Total</b>	<b>3,070</b>	<b>484</b>	<b>0</b>	<b>(2,019)</b>	<b>1,535</b>

The increases of the year (€ 484 thousand) refer to guarantee deposits and/or loans to Toto S.p.A. Costruzioni Generali (€ 10 thousand), Renexia S.p.A. (€ 468 thousand) and other companies (€ 6 thousand).

The decreases of € 2,019 thousand relate to:

- the Construction BU, down by € 1,029 thousand;
- the receivables recognised by Renexia S.p.A. for payments on account to purchase the equity investments in Indaco S.r.l. and Volere Volare S.r.l., which own the connection quotations for the installation of turbines (mini wind turbines) in the Melfi municipality – € 700 thousand;
- the repayments received from TH in respect to prior year extensions of payment (€ 250 thousand).

There were no changes in the bad debt provision during the year:

Description (amounts in €/000)	31/12/2016	Accruals	Utilisation	31/12/2017
Bad debt provision	14	0		14
<b>Total</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>14</b>

The bad debt provision refers to TH.

## OTHER SECURITIES

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Other securities	2,210	2,230	(20)
<b>Total</b>	<b>2,210</b>	<b>2,230</b>	<b>(20)</b>

At 31 December 2017, other securities mainly comprised shares and bonds of Banca Popolare di Bari which represent a long-term investment.

## Inventory

At 31 December 2017, inventory amounted to € 223,684 thousand (€ 190,461 thousand at the end of the previous year). This item is broken down as follows:

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Raw materials, consumables and supplies	18,553	13,197	5,356
Contract work in progress	146,322	106,577	39,745
Finished products and goods	56,914	56,666	248
Payments on account	1,895	14,021	(12,126)
<b>Total</b>	<b>223,684</b>	<b>190,461</b>	<b>33,223</b>

**Raw materials, consumables and supplies** amount to € 18,553 thousand (€ 13,197 thousand at 31 December 2016) and refer to raw materials (€ 15,889 thousand) recognised in the financial statements of Toto S.p.A. Costruzioni Generali and its subsidiaries (€ 10,607 thousand at 31 December 2016), raw materials of € 2,302 thousand related to Strada dei Parchi S.p.A. (€ 2,247 thousand at 31 December 2016), raw materials of € 334 thousand related to Parchi Globale Services S.p.A. (€ 312 thousand at 31 December 2016) and raw materials of € 28 thousand related to Intersun S.r.l. (€ 31 thousand at 31 December 2016).

These items are measured at purchase/production cost or their realisable value based on market trends, whichever is lower.

**Contract work in progress** (€ 146,322 thousand; 31 December 2016: € 106,577 thousand) mainly refers to TOTO S.p.A. Costruzioni Generali (€ 98,412 thousand; € 89,557 at 31 December 2016) and Renexia Services S.r.l. (€ 47,868 thousand; € 16,841 thousand at 31 December 2016).

For a better understanding of the changes in this item, the following table summarises the main changes related to the companies, which are subsequently commented on:

Description (amounts in €/000)	31/12/2016	Increases	Decreases	31/12/2017
Toto S.p.A. Costruzioni Generali	89,557	98,412	(89,557)	98,412
Renexia Services S.r.l.	16,840	47,867	(16,840)	47,867
Other companies	180	42	(179)	43
<b>Total</b>	<b>106,577</b>	<b>146,321</b>	<b>(106,576)</b>	<b>146,322</b>

TOTO S.p.A. COSTRUZIONI GENERALI

This item shows a net increase of € 8,855 thousand compared to the previous year-end balance and includes work carried out pending the issue of the payment certificate (€ 18,668 thousand), in addition to the increase in fees for price adjustments (totalling € 350 thousand) and in fees requested from clients for claims (€ 62,500 thousand). Inventory related to the Polish foreign contract amounts to € 11,261 thousand and was measured using the cost-to-cost method. This method better reflects the results of this type of contracts.

Contract work in progress includes the pre-operating costs recognised in accordance with OIC document no. 23 of 5 August 2014 for a total of € 16,894 thousand. This item rose by € 3,887 thousand, mainly as a result of the costs incurred to launch the Cefalù, La Spezia, Ritiro, l'Aquila, Mantua and Czech Republic contracts.

Pre-operating costs are considered contract costs and form part of the net profit (loss) for the year based on the progress of work, calculated using the percentage of completion method with the physical measurement method. Claims (unchanged compared to the previous year) are measured considering the estimates prepared by the specific company areas (based on the type of each claim, including assessments of the legal grounds and financial capacity). According to the directors, the disputes underway will have a positive outcome and therefore these amounts will be recoverable, based on past experience and taking into account the assessments and opinions issued by an independent professional.

RENEXIA SERVICES S.R.L.

Contract work in progress amounts to € 47,867 thousand and comprises:

1. the percentage of progress of the contract related to the Circello site for the construction of Cogein wind farm. The balance includes the pre-operating costs incurred prior to the beginning of the construction activities (approximately € 195 thousand).
2. the percentage of progress of the contract related to the Castelpagano-Pontelandolfo power line which will be purchased by Terna, once construction is complete.

**"Finished goods"** amount to € 56,914 thousand (€ 56,666 thousand at 31 December 2016) and include:

Description (amounts in €/000)	31/12/2016	Increases	Decreases	31/12/2017
Finished goods (TOTO S.p.A. Costruzioni Generali)	56,666	483	(235)	56,914
<b>Total</b>	<b>56,666</b>	<b>483</b>	<b>(235)</b>	<b>56,914</b>

As shown in the table, this item increased by € 483 thousand and refers to that recognised in TOTO CG's financial statements.

It includes TOTO CG's assets held for sale, specifically, buildings, land and industrial areas no longer in use totalling € 15,681 thousand and machinery and equipment of € 34,569 thousand. Machinery includes € 34,085 thousand related to the Martina TBM, currently unused and held for sale. The asset was appraised by a sector-leading company which determined that the estimated value was not below the carrying amount.

The item also includes € 6,665 thousand, being the carrying amount of the Agorà real estate units unsold at 31 December 2017. The € 235 thousand decrease is due to the difference between the carrying amount and the sale price of the real estate units sold during the year.

**"Payments on account"** decreased by € 12,126 thousand. The related balances are analysed as follows:

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Payments on account	1,895	14,021	(12,126)
<b>Total</b>	<b>1,895</b>	<b>14,021</b>	<b>(12,126)</b>

The decrease is essentially due to the contract of Renexia Services S.r.l. (€ 12,701 thousand), which comprises the advances made to suppliers in 2016 to purchase the materials delivered in 2017 to build the Circello (BN) wind farm.

## Receivables

The breakdown of receivables by due date and type, compared with the prior year-end balance is as follows:

Description (amounts in €/000)	Due within one year	Due after one year	Due after 5 years	31/12/2017	31/12/2016	Changes
Trade receivables	29,464	0		29,464	36,206	(6,742)
From subsidiaries	1,328			1,328	174	1,154
From associates	538			538	975	(437)
Tax receivables	25,386			25,386	19,925	5,461
Deferred tax assets	66,065			66,065	78,850	(12,785)
From others	90,908	6		90,914	65,989	24,925
<b>Total</b>	<b>213,689</b>	<b>6</b>	<b>0</b>	<b>213,695</b>	<b>202,119</b>	<b>11,576</b>

With regard to the information required by article 2427.6 of the Italian Civil Code, the breakdown of receivables by geographical area is given below.

Receivables by geographical area	Trade receivables	From subsidiaries	From associates	Tax receivables	Deferred tax assets	From others	Total
Italy	23,594	1,328	538	25,386	66,065	90,842	207,753
EU	5,870					67	5,937
Non-EU						5	5
<b>Total</b>	<b>29,464</b>	<b>1,328</b>	<b>538</b>	<b>25,386</b>	<b>66,065</b>	<b>90,914</b>	<b>213,695</b>

## TRADE RECEIVABLES

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Trade receivables	29,464	36,206	(6,742)
<b>Total</b>	<b>29,464</b>	<b>36,206</b>	<b>(6,742)</b>

The balance of the item at 31 December 2017 (€ 29,464 thousand compared to € 36,206 thousand at 31 December 2016) mainly consists of receivables from TOTO CG and its subsidiaries for € 10,964 thousand (€ 19,471 thousand at 31 December 2016) net of the provision for bad debts.

The residual balance at 31 December 2017 comprises the receivables (net of the provision for bad debts) related to:

- Strada dei Parchi S.p.A. for € 8,984, (€ 9,163 thousand at 31 December 2016);
- Renexia S.p.A for € 2,605 thousand (€ 2,435 thousand at 31 December 2016);
- AP FLEET LTD for € 1,004 thousand (€ 1,125 thousand at 31 December 2016);
- Toto Holding S.p.A. for € 126 thousand (€ 126 thousand at 31 December 2016);
- Intersun S.r.l. for € 149 thousand (€ 160 thousand at 31 December 2016);
- Renexia Services S.r.l. for € 5,542 thousand (€ 3,432 thousand at 31 December 2016);
- and to the remaining group companies for € 335 thousand (€ 291 thousand at 31 December 2016).

The receivables related to Strada dei Parchi S.p.A. are mainly due from public bodies and sub-operators of service areas (refreshment and fuel).

The nominal amounts of trade receivables are adjusted to their estimated realisable value through the specific bad debt provision which, at 31 December 2017, amounted to € 5,214 thousand.

The following changes were made to the bad debt provision during the year:

Description (amounts in €/000)	31/12/2016	Accruals	\$ exchange rate effect	Uses	31/12/2017
Bad debt provision	5,729	105	(408)	(212)	5,214
<b>Total</b>	<b>5,729</b>	<b>105</b>	<b>(408)</b>	<b>(212)</b>	<b>5,214</b>

The exchange rate effect refers to the provision recognised in APFL's financial statements, which are prepared in US dollars.

## RECEIVABLES FROM ASSOCIATES

They amount to € 538 thousand, down by € 437 thousand on 31 December 2016 (€ 975 thousand).

## TAX RECEIVABLES

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
VAT credits	22,955	17,035	5,920
IRES claimed for reimbursement	752	1,203	(451)
Other tax receivables	1,679	1,687	(8)
<b>Total</b>	<b>25,386</b>	<b>19,925</b>	<b>5,461</b>

This item rose by € 5,461 thousand and refers to the VAT credit which grew considerably, mainly in SDP's financial statements (€ 5,796 thousand), following the investments of the year.

#### DEFERRED TAX ASSETS

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Deferred tax assets	66,065	78,850	(12,785)
<b>Total</b>	<b>66,065</b>	<b>78,850</b>	<b>(12,785)</b>

This item amounts to € 66,065 thousand at 31 December 2017, compared to € 78,850 thousand at 31 December 2016.

The € 12,785 thousand decrease is the net effect of the release and recognition of deferred tax assets:

- calculated as an increase in respect of US Wind's tax losses (€ 128 thousand);
- and the net effect (a decrease € 7,385 thousand) of releases and recognition of deferred tax assets in Toto Holding S.p.A.'s financial statements;
- the net effect (a decrease of € 5,616 thousand) of releases and recognition of deferred tax assets in SDP's financial statements.

Deferred tax assets were recognised since, based on estimated future operating results, it was reasonably certain to believe that they would be recovered with the taxable profit generated from operations to the extent set by current law.

#### FROM OTHERS

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
From others	90,914	65,989	24,925
<b>Total</b>	<b>90,914</b>	<b>65,989</b>	<b>24,925</b>

This item amounts to € 90,914 thousand and increased by € 24,925 thousand compared to the corresponding amount at 31 December 2016 (€ 65,989 thousand). It refers to the following companies:

- TOTO Holding S.p.A for € 22,676 thousand (€ 13,495 thousand at 31 December 2016). It includes:
  - € 13,341 thousand for the tax dispute in progress upon the sale of the investment in Air One S.p.A held and sold in 2008, in relation to the reimbursement of VAT on passenger boarding fees for 2005/2006. With its ruling of 14 January 2015, the Court of Cassation rejected the appeal filed by the tax authority and ordered that the latter reimburse the disputed amount of VAT. The tax authority has appealed to the Supreme Court to have this ruling reversed. The company, supported by the legal opinion of its consultant, believes that the risk of losing the dispute is remote and, since the matter has already been the subject of a trial *inter partes*, there are no grounds for seeking annulment of the judgement;
  - € 8,998 thousand paid by TH as part of the settlement agreement signed with CAI in August 2017. The amounts refer to the VAT that CAI (through the subsidiary Air One) paid to the tax authority and that the Toto Group can recover in the next few months (as per the settlement agreement signed with CAI).
- Strada dei Parchi S.p.A. for € 62,947 thousand (€ 46,775 thousand at 31 December 2016), as shown below:

Description (amounts in €/000)	31/12/2017
Receivables from interrelated companies	26,541
Sundry receivables	1,610
Supplier advances	126
Receivables due to unpaid tolls	2,312
Receivables from the Grantor	32,357
<b>Total receivables from others</b>	<b>62,946</b>

Receivables from interrelated companies include tolls receipts collected by SdP but payable to other interrelated companies while waiting for the amounts to be defined and mutually paid. Receivables from the Grantor mainly refer to the recognition of the amounts due to SdP as toll recovery. In consideration of their type and the status of the process for defining this toll recovery, we believe that this payment will take place in a reasonably brief period of time.

- Toto S.p.A. Costruzioni Generali, with its subsidiaries in the construction sector, for € 4,329 thousand (€ 4,215 thousand at 31 December 2016); the nominal amount of receivables from others was adjusted to their estimated realisable value through the bad debt provision of € 2,338 thousand;
- AP FLEET Ltd. for € 116 thousand (€ 116 thousand at 31 December 2016);
- Parchi Global Services S.p.A. for € 40 thousand (€ 556 thousand at 31 December 2016);
- US Wind Inc. for € 233 thousand related to guarantee deposits (€ 406 thousand at 31 December 2016);
- other companies for € 687 thousand (€ 426 thousand at 31 December 2016).

#### Current financial assets

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Investments in subsidiaries	3,062	3,062	0
Other investments	0	137	(137)
Other securities	812	1,025	(213)
<b>Total</b>	<b>3,874</b>	<b>4,224</b>	<b>(350)</b>

"Investments in subsidiaries" comprise the acquisition of 100% of Parco Eolico Casalduni House S.r.l. on 17 November 2016, inclusive of ancillary charges (notary deed).

"Other investments" decreased by € 137 thousand on 31 December 2016 due to the sale of the investment held in Mediass S.p.A. which was completed in March 2017. This transaction generated a gain of approximately € 363 thousand.

Other securities include the securities intended to be held for a short period of time.

#### Liquid funds

This item, totalling € 68,854 thousand, includes bank and postal accounts of € 68,235 thousand and cash-in-hand and cash equivalents of € 619 thousand.

Furthermore, as part of the MLT loan agreement entered into by Strada dei Parchi S.p.A., current account positive balances have been given as a pledge to lending banks. At 31 December 2017, these current accounts amounted to € 64,478 thousand.

Additionally, the group's liquid funds are partially brought in proportion to the commitments under "no recourse" borrowing (project/asset financing): therefore, these amounts represent cash solely to be used for the specific project or financed asset.

#### Prepayments and accrued income

This item reflects income and expenses pertaining to previous or future years with respect to the related payment or collection. These are recognised regardless of the date of payment of the respective income and expenses, which relate to two or more years and can be allocated over time. Also for these items, the criteria adopted for measuring and translating amounts expressed in foreign currency are described in the first section of these notes.

This item, amounting to € 16,757 thousand (31 December 2016: € 18,205 thousand), includes accrued income of € 174 thousand and prepayments of € 16,583 thousand.

Prepayments mainly refer to:

- US Wind Inc. for € 7,513 thousand relating to payments made by the company to the US authorities (including the ONRR Department of Interior) in order to commence the preliminary activities necessary to obtain the permit to build the off-shore wind power facility off the coast of Maryland and New Jersey;

in accordance with current accounting standards, prepayments released after more than 12 months amounted to € 6,945 thousand.

- TOTO S.p.A. Costruzioni Generali, for € 5,391 thousand;
- Strada dei Parchi S.p.A. for € 3,322 thousand.

They comprise prepaid costs such as insurance premiums, rent and leases and substitute tax on loans (the latter cost item is attributable to Strada dei Parchi S.p.A.).

#### Net equity

Net equity amounts to € 143,396 thousand (€ 125,810 thousand at 31 December 2016). It increased by € 17,837 thousand in comparison to the previous year. Details are provided in the tables in annexes 4 and 5 to these financial statements. The increase is mainly due to the effect of the net profit for the year of € 8,118 thousand (including minority interests) and the variation in the hedging reserve recognised by TOTO CG and, in particular, SDP.

Net equity decreased considerably due to the recognition of the hedging reserve, for a negative amount of Euro 68,866 thousand.

Si ricorda infine che, che come previsto dall'art.2426 del codice civile, le riserve di patrimonio che derivano dalla valutazione al fair value di derivati utilizzati a copertura dei flussi finanziari attesi di un altro strumento finanziario o di un'operazione programmata non sono considerate nel computo del patrimonio netto per le finalità di cui agli articoli 2412, 2433, 2442, 2446 e 2447 e, se positive, non sono disponibili e non sono utilizzabili a copertura delle perdite.

#### Provisions for risks and charges

The breakdown of the item is as follows:

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Tax provision	274	192	82
Derivatives	90,613	109,933	(19,320)
Other provisions	17,521	71,827	(54,306)
<b>Total</b>	<b>108,408</b>	<b>181,952</b>	<b>(73,544)</b>

#### TAX PROVISION

The tax provision consists of deferred tax liabilities generated by temporary differences taxable in future years.

#### DERIVATIVES

This provision includes the negative fair value of the derivatives that were entered into for the purpose of hedging the interest rates on loans. For more details, refer to the paragraph "Derivative financial instruments". Of this item, € 90,431 thousand refers to SDP, while the residual balance (€ 182 thousand) includes the provision

recognised by TOTO CG.

#### OTHER PROVISIONS

Other provisions amounts to € 17,521 thousand compared to € 71,827 thousand for the previous year-end balance. The significant decrease (€ 54,306 thousand) includes the release recognised in TH's financial statements (€ 50,775 thousand): as described in the paragraph "Significant events – Toto Holding S.p.A." of the Directors' report, on 2/3 August 2017, TH and CAI entered into a settlement agreement whereby the parties agreed the terms to repay the amounts due to CAI following the arbitration award of 14/17 February 2017. Consequently, the amounts accrued in prior years (on an accruals basis) were used in 2017 and transferred to other payables (€ 50.7 million).

The item is broken down below for each company:

#### **TOTO Holding S.p.A. (€ 566 thousand)**

This item fell from € 51,302 thousand at 31 December 2014 to € 566 thousand. Changes of the year may be analysed as follows:

Description (amounts in €/000)	31/12/2016	Accruals	Utilisation	31/12/2017
Provision for future charges	51,302	39	(50,775)	566
<b>Total</b>	<b>51,302</b>	<b>39</b>	<b>(50,775)</b>	<b>566</b>

The change of the year was described in the paragraph above.

#### Additional information about other contingent liabilities

Pursuant to OIC 31. 49, the following information is provided about possible liabilities:

#### Tax dispute

As described in detail in the "Tax disputes" section of the Directors' report, to which reference should be made for additional information, the parent is certain of its position and, as permitted by the applicable accounting standards, believes that the risk of losing the case is possible but not probable, as confirmed by the opinion of the leading tax professors and experts that assist it. Therefore, no accrual has been recognised in respect of this liability.

The total risk of losing amounts to approximately € 16 million.

#### **TOTO S.p.A. Costruzioni Generali (€ 2,889 thousand)**

This item comprises:

- a provision for pension related to the annual accrual for the end-of-office indemnity for the Board of

Directors resolved by the Shareholders (€ 240 thousand);

- € 2,440 thousand which basically refers to the accruals for ten-year post-completion policies;
- € 209 thousand, being the accrual in respect of the work site disposal costs related to the contract underway.

**Alitec S.p.A. (€ 60 thousand)**

The balance refers to the provision set up in 2004 for material removal work in the area surrounding the owned building. This work has not yet been carried out.

**Strada dei Parchi S.p.A. (€ 10,519 thousand)**

- *Provision for ANAS release of liability (€ 4,093 thousand - 31 December 2016: € 4,093 thousand)*

This item refers to the charge incurred when the agreement was entered into, for the release of liability issued to ANAS for risks deriving from the management relationship under Law no. 106 of 6 April 1977. The provision did not change during the year.

- *Provision for restoring and replacing freely transferable assets (€ 6,041 thousand - 31 December 2016: € 7,189 thousand)*

At 31 December 2017, the provision consists of costs for non-recurring scheduled maintenance.

- *Provision for risks for fines and penalties arising from the Single Agreement (€ 385 thousand - 31 December 2016: € 1,885 thousand)*

This item mainly includes provisions for probable payables due to current disputes, whose outcome should be defined in the next few years.

**Renexia S.p.A. (€ 3,375 thousand)**

The balance refers to the damages that the company may pay to C.v.a. S.p.A. following the sale of the investment in Ponte Albanito S.r.l. (January 2015) in connection with the dispute commenced by Energy & Technical Services S.r.l. ("ETS").

**Intersun S.r.l. (€ 112 thousand)**

This provision for future charges refers to the maintenance that will be carried out cyclically on the photovoltaic plant owned by the company.

## Employees' leaving entitlement

The breakdown of the provision by company is as follows:

Company (in €'000)	31/12/2017	31/12/2016	Changes
TOTO Holding S.p.A.	364	212	152
TOTO S.p.A. Costruzioni Generali	662	883	(221)
Infraengineering S.r.l.	200	167	33
Parchi Global Services S.p.A.	411	332	79
Strada dei Parchi S.p.A.	8,123	8,738	(615)
Toto Real Estate S.p.A.	25	25	0
Az. Aviagrica Abr. S.r.l.	3	2	1
Renexia S.p.A.	102	61	41
Renexia Services S.r.l.	51	41	10
<b>Total</b>	<b>9,941</b>	<b>10,461</b>	<b>(520)</b>

The provision represents the actual amount due to employees in accordance with the law and current employment contracts, taking into account all forms of remuneration of an ongoing nature.

It is the total of the individual amounts accrued (for group companies with more than 50 employees only until 31 December 2006) by employees at the reporting date, net of any advances paid, and is equal to the amount that would be due to employees if they were to leave the company at that date.

For group companies with more than 50 employees, the provision does not include the indemnities accrued from 1 January 2007 allocated to supplementary pension schemes under Legislative decree no. 252 of 5 December 2005 (i.e., transferred to the INPS treasury).

## Payables

After eliminating intercompany amounts, consolidated payables are measured at their nominal amount. Their due date can be broken down below as follows:

Description (amounts in €/000)	Due within one year	Due after one year	Due after 5 years	31/12/2017	31/12/2016	Changes
Shareholder loans	0	1,145	0	1,145	1,104	41
Bank loans and borrowings	81,195	169,749	334,754	585,698	606,102	(20,404)
Loans and borrowings to other financial backers	60,784	131,156	491,723	683,663	654,923	28,740
Payments on account	52,441	4,176	0	56,617	40,887	15,730
Trade payables	125,762	0	0	125,762	92,785	32,977
Payables to associates	657	0	0	657	149	508
Tax payables	55,435	21,474	0	76,909	67,221	9,688
Social security charges payable	10,641	0	0	10,641	6,879	3,762
Other payables	51,127	18,586	0	69,713	30,937	38,776
<b>Total</b>	<b>438,042</b>	<b>346,286</b>	<b>826,477</b>	<b>1,610,805</b>	<b>1,500,987</b>	<b>109,818</b>

The breakdown of payables by geographical area is shown below:

Payables by geographical area	Shareholder loans	Bank loans and borrowings	Loans and borrowings to other financial backers	Payments on account	Trade payables	Payables to associates	Tax payables	Social security charges payable	To others	Total
Italy	1,145	569,648	681,578	56,617	109,526	657	76,849	10,499	69,449	1,575,968
EU		16,050			15,153		60	142	227	31,632
Non-EU			2,085		1,083				37	3,205
<b>Total</b>	<b>1,145</b>	<b>585,698</b>	<b>683,663</b>	<b>56,617</b>	<b>125,762</b>	<b>657</b>	<b>76,909</b>	<b>10,641</b>	<b>69,713</b>	<b>1,610,805</b>

## BANK LOANS AND BORROWINGS

Bank loans and borrowings for transaction accounts, credit facilities, contract advances, invoice advances and for mortgages comprising principal, interest and ancillary charges incurred, amount to € 585,698 thousand (€ 606,102 thousand at 31 December 2016) and decreased significantly by € 20,404 thousand with respect to 31 December 2016.

A breakdown of bank loans and borrowings by type is provided below compared with the corresponding balances of the previous year:

Shareholder loans (€'000)	31/12/2017	31/12/2016	Changes
Asset finance	22,250	32,882	(10,632)
Project finance	488,226	499,669	(11,443)
Self-liquidating loans	51,986	54,355	(2,369)
Corporate loans	23,236	19,196	4,040
<b>Total</b>	<b>585,698</b>	<b>606,102</b>	<b>(20,404)</b>

### ASSET FINANCE

Asset financing consists of the loans taken out with collateral on owned assets and decreased by € 10,622 thousand; the decrease was due to:

- TOTO CG (and its subsidiaries belonging to the Construction Business Unit) for € 10,459 thousand;
- TOTO RE (€ 173 thousand).

Part of these loans are assisted by collateral on properties.

### PROJECT FINANCE

Project finance loans decreased by € 11,443 thousand as a result of (i) the repayment of € 11,205 thousand by SDP as part of the (no recourse) loan granted by a national and international banking syndicate (for a total of € 570,500 thousand) and (ii) the repayment of principal of the loan granted to Intersun S.r.l. which generated the € 238 thousand decrease.

### SELF-LIQUIDATING LOANS

They decreased by € 2,369 thousand from € 54,355 thousand in 2016 to € 51,986 thousand at 31 December 2017. The decrease is due to:

- the disbursement of new loans in favour of Renexia Services S.r.l. amounting to € 2,571 thousand;
- increases for the disbursement of new loans in favour of Renexia S.p.A. Amounting to € 500 thousand;
- increases for the disbursement of new loans in favour of PGS amounting to € 275 thousand;
- net decreases in the loans used by Toto S.p.A. Costruzioni Generali (advances on work progress reports/internal situation reports and advances on connected "Contracts") amounting to € 5,715 thousand.

#### CORPORATE LOANS

Corporate loans increased by € 4,040 thousand from € 19,196 thousand at 31 December 2016 to € 23,236 thousand at 31 December 2017. The changes of the year are as follows:

- repayments of TOTO Holding S.p.A. amounting to approximately € 6,966 thousand;
- net increase in the credit facilities of TOTO S.p.A. Costruzioni Generali by € 11,009 thousand, net balance deriving from the repayment and the disbursements received for the facilities held until cancellation.

#### **LOANS AND BORROWINGS TO OTHER FINANCIAL BACKERS**

This item, amounting to € 683,663 thousand (31 December 2016: € 654,923 thousand) increased by € 28,740 thousand compared to the previous year-end balance.

A breakdown of the item is provided below compared with the corresponding balances of the previous year:

Shareholder loans (€/000)	31/12/2017	31/12/2016	Changes
Asset finance (leased assets)	4,218	2,995	1,223
Corporate (US Wind wind farm)	2,085	2,372	(287)
Payable to the grantor	677,360	649,556	27,804
<b>Total</b>	<b>683,663</b>	<b>654,923</b>	<b>28,740</b>

#### LEASED ASSETS

Payables for leased assets, amounting to € 4,218 thousand, are attributable to TOTO CG (€ 3,587 thousand), SDP (€ 274 thousand), TH (€ 15 thousand) and PGS (€ 342 thousand). Leases are recognised using the financial method as set out in IAS 17 and OIC 17.105.

#### CORPORATE (US WIND WIND FARM)

This item amounts to € 2,085 thousand and refers to the loan granted by the State of Maryland to finance the studies aimed at constructing the off-shore wind farm in the body of water belonging to Maryland.

#### PAYABLE TO THE GRANTOR

This item of € 677,360 thousand refers to SDP and consists of:

- the payable to the grantor divided into the portion due within one year (€ 55,859 thousand) and after one year (€ 606,291 thousand);
- the amount due to the Italian Guarantee Scheme of ANAS for the so-called "*former SARA loans*" payable assumed by Strada dei Parchi due to the New Single Agreement, divided into the portion due within one year (€ 3,562 thousand) and after one year (€ 11,648 thousand).

The table below shows the changes of the year in the amount due to the grantor:

Amounts in thousands of euro	31/12/2016	Payments	Compensation	Increases	31/12/2017
Residual amount due for Concession Fee deferment	564,510	0	0	0	564,510
Interest of the year	66,423	0	0	31,216	97,639
Guarantee fund	18,623	(3,412)	0	0	15,211
<b>Total</b>	<b>649,556</b>	<b>(3,412)</b>	<b>0</b>	<b>31,216</b>	<b>677,360</b>

#### **TRADE PAYABLES**

Trade payables amount to € 125,762 thousand (31 December 2016: € 92,785 thousand), up by € 32,977 thousand from the previous year-end balance. The increase is mainly attributable to TOTO CG (€ 16,923 thousand) and SDP (€ 10,063 thousand).

#### **PAYABLES TO ASSOCIATES**

They amount to € 657 thousand (€ 149 thousand at 31 December 2016), up by € 508 thousand with respect to the previous year-end balance.

#### **TAX PAYABLES**

This item amounts to € 76,909 thousand (31 December 2016: € 67,221 thousand). The main items which make up the balance are summarised as follows:

- IRAP (regional tax on production) payable: € 3,332 thousand (31 December 2016: € 3,250 thousand);
- withholdings for employees' and consultants' remuneration: € 7,018 thousand (31 December 2016: € 5,422 thousand);
- VAT payables: € 66,521 thousand (31 December 2016: € 58,543 thousand) of which € 21,474 due after one year;
- Other tax payables: € 38 thousand (31 December 2016: € 5 thousand);

## OTHER PAYABLES

In 2017, "Other payables" increased by € 38,776 thousand, from € 30,937 thousand at 31 December 2016 to € 69,713 thousand at 31 December 2017. The increase is mainly attributable to TOTO Holding S.p.A., specifically the liability to CAI (€ 39,455 thousand at year end) related to the dispute with CAI which, as described in the paragraph "Significant events – Toto Holding S.p.A." of the Directors' report, was settled on 2/3 August 2017 by entering into a settlement agreement whereby the parties agreed the terms to repay the amounts due by TH to CAI following the award of the arbitration board of 14/17 February 2017. The related amounts had already been accrued in 2016 in the provisions for risks and charges. € 50,749 thousand was used when signing the settlement agreement. Therefore, during the year, as per the agreement, TH paid approximately € 11,294 thousand, decreasing the related liability.

Furthermore, as described in the note to "Receivables" under current assets - from others, TH paid CAI additional amounts (€ 8,998 thousand), related to the VAT that CAI (through the subsidiary Air One) paid to the tax authority and which the Toto Group can recover in the next few months. Therefore, in 2017, the company paid CAI € 20,755 thousand.

### Accrued expenses and deferred income

Description (amounts in €/000)	31/12/2017	31/12/2016	Changes
Accrued expenses and deferred income	2,339	1,772	567
<b>Total</b>	<b>2,339</b>	<b>1,772</b>	<b>567</b>

These are recognised on an accruals basis.

## Notes to the profit and loss account

### Production revenues

The breakdown of Production revenues for 2017 is as follows:

Description (amounts in €/000)	2017	2016	Changes
Turnover from sales and services	239,953	362,788	(122,835)
Change in work in progress	(235)	(955)	720
Change in contract work in progress	39,342	13,328	26,014
Internal work capitalised	109,315	19,610	89,705
Other revenues and income	9,510	6,354	3,156
<b>Total</b>	<b>397,885</b>	<b>401,125</b>	<b>(3,240)</b>

Reference should be made to the Directors' report for an in-depth analysis of the change in turnover from sales and services and the overall group performance.

## REVENUES BY BUSINESS SEGMENT

Revenues are broken down by business segment as follows:

Category (in €/000)	2017	2016	Changes
Work tender and design services (**)	136,323	165,831	(29,508)
Motorway concession revenues	197,105	198,712	(1,607)
Revenues for engineering services (**)	9,819	14,210	(4,391)
Revenues from the energy sector (**)	625	751	(126)
Other (**)	1,770	1,624	146
<b>Sub-total</b>	<b>345,642</b>	<b>381,128</b>	<b>(35,486)</b>
(**) of which Work tender services provided to group companies	(105,689)	(18,340)	(87,349)
<b>Total turnover from sales and services</b>	<b>239,953</b>	<b>362,788</b>	<b>(122,835)</b>

As shown in the table, € 105,689 thousand corresponds to the payment of work tender services to group companies which were reclassified to Internal work capitalised.

## REVENUES BY GEOGRAPHICAL SEGMENT

Revenues by geographical segment	Turnover from sales and services	Total
Italy	102,729	<b>102,729</b>
EU	33,594	<b>33,594</b>
Non-EU	0	<b>0</b>
<b>Total</b>	<b>136,323</b>	<b>136,323</b>

The turnover related to the EU refers to the revenues earned by TOTO CG in respect of the contract underway in Poland.

## Production cost

The breakdown of Production cost for 2017 is as follows:

Description (amounts in €/000)	2017	2016	Changes
Raw materials, consumables, supplies and goods	67,321	46,971	20,350
Services	90,459	117,227	(26,768)
Use of third party assets	12,786	8,558	4,228
Personnel expenses	72,701	67,197	5,504
Amortisation/depreciation and write-downs	45,576	52,158	(6,582)
Change in raw materials, consumables, supplies and goods	(5,271)	(2,554)	(2,717)
Provisions for risks	365	18,622	(18,257)
Other provisions	833	142	691
Other operating costs	22,576	26,100	(3,524)
<b>Total</b>	<b>307,346</b>	<b>334,421</b>	<b>(27,075)</b>

## Raw materials, consumables, supplies and goods

This item amounts to € 67,321 thousand and increased by € 20,350 thousand compared to the previous year.

The following purchases had a particular impact:

- raw materials for € 42,854 thousand;
- consumables for € 17,210 thousand;
- fuel and lubricants for € 2,892 thousand;
- maintenance materials for € 3,431 thousand.

#### Services

These amount to € 90,459 thousand. This item includes external processing costs (€ 42,270 thousand), technical consultancy costs (€ 8,095 thousand), electricity costs (€ 3,842 thousand), sundry insurance costs (€ 3,647 thousand) and consultancy and legal fees (€ 8,254 thousand).

#### Use of third party assets

This item amounts to € 12,786 thousand and comprises lease payments for administrative offices, software rental fees and user licences and miscellaneous fees.

#### Personnel expenses

This item amounts to € 72,701 thousand and includes all personnel expenses, including merit-based bonuses, promotions, seniority raises, accrued untaken holidays and provisions required by law and collective employment contracts.

#### Amortisation/depreciation and write-downs

##### Amortisation/depreciation (€ 43,109 thousand)

This item went from € 51,915 thousand in 2016 to € 43,109 thousand in 2017. The € 8,806 thousand decrease is mainly due to SDP. Indeed, the depreciation of its freely transferable assets is no longer calculated on the residual useful life of the assets, using the amortisation method at variable rates, annually equal to the portion of the payable for the concession fee repaid to the grantor. In fact, it is now based on the rates set out in the BP which envisages variable rates which reflect the trend of traffic revenues, net of directly attributable costs and expenses.

The item includes the depreciation of leased assets (recognised using the finance method pursuant to IAS 17 and OIC 17.105), equal to € 1,072 thousand (for assets used by TOTO CG, SDP, TH and PGS).

##### Write-downs (€ 2,467 thousand)

These comprise:

*Other write-downs (item B10c)* - € 2,362 thousand, recognised in Alitec S.p.A.'s financial statements in respect of the commercial licences described in the note to "Start-up and capital costs" to which reference should be made.

*Write-downs of current receivables (item B10d)* - € 105 thousand recognised in the financial statements of TOTO CG and TOTO RE to adjust the nominal amount of receivables to their recoverable amount.

### Provisions for risks

This item amounts to € 365 thousand. The significant difference with respect to 2016 (€ 18,622 thousand) is attributable to the exceptional nature of the accruals recognised in the previous year, which did not repeat in 2017.

Indeed, the group's profit and loss account for 2016 was impacted by exceptional accruals which included those recognised by TH in connection with the settlement agreement signed with CAI on 2/3 August 2017 and the compensation that Renexia S.p.A. may pay to the counterparty which began the legal action. In this respect, in 2016, the company had prudently recognised an accrual of € 3,194 thousand, although it believed that the claims were groundless. For additional information, reference should be made to that set out in the paragraph "Risk Factors and Uncertainties – Renexia S.p.A.". The item has a balancing entry in the balance sheet, under provisions for risks and charges.

### Other provisions

This item amounts to € 833 thousand and comprises:

- TOTO CG's accruals of € 120 thousand related to the end-of-office indemnity for its directors;
- SDP's accruals of € 691 thousand which entirely relate to the provision for restoring and replacing freely transferable assets;
- Intersun S.r.l.'s accruals of € 22 thousand related to cyclical maintenance to be carried out on the photovoltaic park owned by the company.

### Financial income and charges

The item is broken down as follows:

Description (amounts in €/000)	2017	2016	Changes
Income from equity investments	363	0	363
Other financial income	570	385	185
Interest and other financial charges	(71,148)	(71,273)	125
Net exchange rate gains (losses)	1,218	(405)	1,623
<b>Total</b>	<b>(68,997)</b>	<b>(71,293)</b>	<b>2,296</b>

Income from equity investments amounts to € 363 thousand and refers to the gain on the sale of the non-controlling interest in Mediass S.p.A. held by TH. In March 2017, the expressions of interests of Mediass S.p.A.'s shareholders about the possible acquisition of the equity investment held therein became true.

Other income comprises interest income accrued on non-current receivables and interest income on bank deposits.

Interest and other financial charges totalling € 71,148 thousand consist of:

Description (amounts in €/000)	2017	2016	Changes
To banks	(32,875)	(33,303)	428
To others	(38,273)	(37,970)	(303)
<b>Total</b>	<b>(71,148)</b>	<b>(71,273)</b>	<b>125</b>

Interest and charges to others mainly refer to the interest expense due to the Grantor on the extension of the payment of the concession fee and the former SARA loans of Strada dei Parchi S.p.A. (approximately € 31,869 thousand).

#### Adjustments to financial assets and liabilities

Description (amounts in €/000)	2017	2016	Changes
Write-backs	293	0	293
Write-downs	(314)	(835)	521
<b>Total</b>	<b>(21)</b>	<b>(835)</b>	<b>814</b>

"Write-backs" amount to € 293 thousand and refer to that recognised in the sub-consolidated financial statements of the Construction BU in respect to the investment in Intermodale S.r.l.

"Write-downs" include those recognised by:

- TOTO Holding S.p.A. (€ 83 thousand) in respect of the following investments:
  - Interporto Val Pescara for € 59 thousand;
  - CAI for € 13 thousand;
  - Mediapharma for € 5 thousand;
  - Janus Pharma for € 6 thousand.
- BU Toto S.p.A. Costruzioni Generali (€ 213 thousand) which represents the write-down of Banca Popolare di Bari shares;
- other companies (€ 18 thousand).

#### Income taxes

Description (amounts in €/000)	2017	2016	Changes
<i>Current taxes:</i>	<i>7,816</i>	<i>5,810</i>	<i>2,006</i>
IRES (corporate income tax)	2,291	533	1,758
IRAP (regional tax on production)	5,525	5,277	248
<i>Deferred tax assets and prior year taxes</i>	<i>7,877</i>	<i>(11,670)</i>	<i>19,547</i>
IRES (corporate income tax)	7,877	(11,670)	19,547
IRAP (regional tax on production)	0	0	0
<i>Charges due to tax consolidation</i>	<i>(2,290)</i>	<i>(409)</i>	<i>(1,881)</i>
<b>Total</b>	<b>13,403</b>	<b>(6,269)</b>	<b>19,672</b>

## Other information

### Off-balance sheet commitments, guarantees and contingent liabilities

Description (amounts in €/000)	2017	2016	Changes
Commitments	683,166	563,148	120,018
Risks	53,411	58,366	(4,955)
Other	196,636	158,460	38,176
<b>Total</b>	<b>933,213</b>	<b>779,974</b>	<b>153,239</b>

The breakdown of memorandum and contingency accounts by company is as follows:

Description (amounts in €/000)	TOTO Holding	TOTO CG	Alitec S.r.l.	Renexia	SDP	Renexia Services	TOTAL
Commitments	3,606	678,497	1,063				683,166
Risks	28,411			5,000	20,000		53,411
Other	40,000	148,587				8,049	196,636
<b>Total</b>	<b>72,017</b>	<b>827,084</b>	<b>1,063</b>	<b>5,000</b>	<b>20,000</b>	<b>8,049</b>	<b>933,213</b>

Details of the item are provided for each relevant group company.

#### *TOTO Holding S.p.A.*

##### Commitments (€ 3,606 thousand - € 0 at 31 December 2016)

These refer to the acquisition of the residual 2% of SDP which is currently held by Autostrade per l'Italia S.p.A.

##### Risks (€ 28,411 thousand - 31 December 2016: € 28,942 thousand)

They include the guarantees given by TH to third parties. The balance consists of those granted to the buyer of Monteboli S.p.A. (€ 28,180 thousand) and is substantially related to the hypothetical compensation payable by the company in the unlikely event of revocation of the single authorisation pursuant to which the Eboli photovoltaic power plant was built.

##### Other (€ 40,000 thousand)

This is the maximum amount which the company will cover for any drop in the market value of the interest rate hedges if the long-term loan agreements entered into by Strada dei Parchi S.p.A. are terminated earlier.

#### *TOTO S.p.A. Costruzioni Generali*

##### Commitments (€ 678,497 thousand - 31 December 2016: € 501,317 thousand)

The contractual commitments refer to goods or services yet to be delivered/provided.

##### Other (€ 148,587 thousand - 31 December 2016: € 118,362 thousand)

- Insurance sureties provided to customers as a guarantee for the satisfactory execution of the works totalling € 106,217 thousand;
- Insurance sureties provided to customers as release of guarantee withholdings on work totalling € 2,233 thousand;
- Insurance sureties provided to customers as a guarantee for advances received for work totalling € 35,137 thousand;
- Insurance and bank sureties provided to guarantee sundry contractual commitments totalling € 5,000 thousand.

#### *Alitec S.p.A.*

##### Commitments (€ 1,063 thousand)

For Alitec S.p.A., commitments consist of the amount of its commitments entered into, net of advances already paid, for the purchase of trade permits for the future shopping centre which the company intends to construct on the land it owns.

#### *Strada dei Parchi S.p.A.*

##### Risks (€ 20,000 thousand)

This item amounts to € 20,000 thousand and refers to the performance bond agreed with the lending banking syndicate to guarantee the Grantor in relation to the concession.

#### *Renexia S.p.A.*

##### Risks (€ 5,000 thousand - 31 December 2016: € 9,000 thousand)

This guarantee was given by Renexia S.p.A. in respect of the sale of Ponte Albanito S.r.l. as "*maximum liability*" for breach of contractual statements and guarantees. It decreases over time when the events for which it was given do not take place.

#### *Renexia Services S.r.l.*

##### Commitments (€ 8,049 thousand - 31 December 2016: € 805 thousand)

These refer to contractual commitments for the supply of goods and services in connection with the design and construction of the wind farm at Circello (BN).

#### CONTINGENT LIABILITIES

The group has no unrecognised contingent liabilities.

#### *Revenue or cost components of a significant amount or unusual impact*

Pursuant to article 2427.13 of the Italian Civil Code, it is noted that no such components were recognised during the year.

### Directors' and statutory auditors' fees

The table below shows the fees paid to directors and statutory auditors pursuant to article 2427.16 of the Italian Civil Code.

Position (in €/000)	(€/000)
Directors	1,616
Board of Statutory Auditors	407
<b>Total</b>	<b>2,023</b>

### Related-party transactions

Transactions with subsidiaries have been eliminated upon consolidation. Other transactions with associates and other related parties were all carried out on an arm's length basis and are irrelevant in view of the parameters recommended by CONSOB in regulation no. 17221 of 12 March 2010 concerning related-party transactions.

Shareholder loans are broken down as follows:

Shareholder loans (€/000)	2017	Due within one year	Due after one year
Shareholder loans	1,145	0	1,145

Details are provided below of transactions with associates:

Company (amounts in €/000)	Loan Assets	Trade Receivables	Loans and borrowings	Trade payables	Revenues	Costs
San Benedetto Val di S. Scarl			3	652		485
Intermodale S.r.l.	5,053	405			11	
Arabona scarl						
Novigal scarl	79		2			
Other companies		133				
<b>Total</b>	<b>5,132</b>	<b>538</b>	<b>5</b>	<b>652</b>	<b>11</b>	<b>485</b>

### Financial instruments issued by the company

The group did not issue financial instruments in 2017.

### Fair value of derivatives

At the reporting date, the group companies held the following financial instruments.

#### *TOTO S.p.A. Costruzioni Generali*

In 2011, the company entered into several interest rate hedges to cover a portion of its bank debt.

The fair value and information on the scope and nature of each category of the group's derivatives are provided below (article 2427-bis.1.1 of the Italian Civil Code). The derivatives listed below were entered into in order to hedge the interest rates applied to the loans acquired.

- 1) Contract: INTEREST RATE SWAP
  - a. type of derivative contract: unlisted financial derivative (Interest Rate Swap);
  - b. contract start date: 30/12/2011
  - c. contract end date: 30/12/2019
  - d. purpose: hedging;
  - e. notional amount: € 3,543,750;
  - f. underlying financial risk: interest rate risk;
  - g. fair value of derivative contract: € (144,373);
  - h. liability hedged: bank debt

- 2) Contract: OPTION
  - a. type of derivative contract: CAP option;
  - b. contract start date: 30/12/2011
  - c. contract end date: 30/12/2019
  - d. purpose: hedging;
  - e. notional amount: 8,268,750;
  - f. underlying financial risk: interest rate risk;
  - g. fair value of derivative contract: € (37,828);
  - h. liability hedged: bank debt

#### *AP Fleet Ltd*

In 2009, the company entered into eight interest rate hedges to cover a portion of its bank debt.

The fair value and information on the scope and nature of each category of the company's derivatives are provided below:

- 1) Contract: INTEREST RATE SWAP
  - a. type of derivative contract: unlisted financial derivative;
  - b. contract start date: 27/02/2009
  - c. contract end date: 30/11/2020
  - d. purpose: speculative;
  - e. notional amount: \$ 9,258,884;
  - f. underlying financial risk: interest rate risk (libor);
  - g. fair value of derivative contract: (\$85,50);
  - h. liability hedged: bank loan

- 2) Contract: INTEREST RATE SWAP
  - a. type of derivative contract: unlisted financial derivative;

- b. contract start date: 27/02/2009
- c. contract end date: 30/11/2020
- d. purpose: speculative;
- e. notional amount: \$ 9,272,034;
- f. underlying financial risk: interest rate risk (libor);
- g. fair value of derivative contract: (\$85,62);
- h. liability hedged: bank loan

3) Contract: INTEREST RATE SWAP

- a. type of derivative contract: unlisted financial derivative;
- b. contract start date: 27/02/2009
- c. contract end date: 30/11/2020
- d. purpose: speculative;
- e. notional amount: \$ 9,251,970;
- f. underlying financial risk: interest rate risk (libor);
- g. fair value of derivative contract: (\$85,42);
- h. liability hedged: bank loan

4) Contract: INTEREST RATE SWAP

- a. type of derivative contract: unlisted financial derivative;
- b. contract start date: 17/03/2009
- c. contract end date: 17/02/2021
- d. purpose: speculative;
- e. notional amount: \$ 7,874,207;
- f. underlying financial risk: interest rate risk (libor);
- g. fair value of derivative contract: (\$105,60);
- h. liability hedged: bank loan

5) Contract: INTEREST RATE SWAP

- a. type of derivative contract: unlisted financial derivative;
- b. contract start date: 01/04/2009
- c. contract end date: 01/04/2021
- d. purpose: speculative;
- e. notional amount: \$ 7,405,983.90;
- f. underlying financial risk: interest rate risk (libor);

- g. fair value of derivative contract: (\$34,78);
- h. liability hedged: bank loan

6) Contract: INTEREST RATE SWAP

- a. type of derivative contract: unlisted financial derivative;
- b. contract start date: 02/04/2009
- c. contract end date: 02/03/2021
- d. purpose: speculative;
- e. notional amount: \$ 7,533,165.95;
- f. Underlying financial risk: interest rate risk (libor);
- g. fair value of derivative contract: (\$54,94);
- h. liability hedged: bank loan

7) Contract: INTEREST RATE SWAP

- a. type of derivative contract: unlisted financial derivative;
- b. contract start date: 05/05/2009
- c. contract end date: 06/04/2021
- d. purpose: speculative;
- e. notional amount: \$ 7,471,284.96;
- f. underlying financial risk: interest rate risk (libor);
- g. fair value of derivative contract: (\$21,04);
- h. liability hedged: bank loan

8) Contract: INTEREST RATE SWAP

- a. type of derivative contract: unlisted financial derivative;
- b. contract start date: 19/05/2009
- c. contract end date: 19/04/2021
- d. purpose: speculative;
- e. notional amount: \$ 7,440,232.81;
- f. underlying financial risk: interest rate risk (libor);
- g. fair value of derivative contract: (\$71,39);
- h. liability hedged: bank loan

The derivatives listed below were entered into in order to hedge the interest rates applied to loans acquired in 2011.

1) Contract: INTEREST RATE SWAP

- a. type of derivative contract: unlisted financial derivative;
- b. contract start date: 30/06/2015
- c. contract end date: 31/12/2027
- d. purpose: hedging;
- e. notional amount: € 375,518,000;
- f. underlying financial risk: interest rate risk (libor);
- g. fair value of derivative contract: € (90,431,000);
- h. liability hedged: bank debt

At 31 December 2017, the fair value of the derivatives agreed was recognised in the provisions for risks and charges with a balancing entry in the hedging reserve, net of the deferred tax effect. These instruments, which are not speculative but exclusively hedge the interest rate risk, will be kept until maturity when their value, given their very nature, will be zero.

**Off-balance sheet transactions**

There are no off-balance sheet transactions which may have a significant impact on the company's financial position and results of operations pursuant to article 2427.22-ter of the Italian Civil Code.

The following documents are attached to these consolidated financial statements:

- list of other investments in consolidated subsidiaries; list of associates measured using the equity method; list of associates recognised at cost (Annex 1);
- list of unconsolidated subsidiaries (Annex 2);
- list of other investments (Annex 3);
- reconciliation between net equity and the net profit of TOTO Holding S.p.A. with consolidated net equity and net profit (Annex 4);
- statement of changes in consolidated net equity (Annex 5);

Chairman of the Board of Directors

Paolo TOTO

## **Annexes to the consolidated financial statements**

## ANNEX 1 - LIST OF CONSOLIDATED INVESTMENTS

Company	Registered office	Country	Business	Currency	Subscribed share/ quota capital	% of share/quota capital held	% direct	% indirect	Indirect investments
<b>PARENT</b>									
Toto Holding S.p.A.	Chieti	Italy	Holding	€	100,000,000	-	-	-	
<b>SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS</b>									
Alitec S.p.A.	Chieti	Italy	Real estate	€	45,000,000	100.00%	4.46%	95.54%	Toto S.p.A. Costruzioni Generali
Ambra S.r.l.	Chieti	Italy	Construction	€	6,900,000	98.55%	-	98.55%	Toto S.p.A. Costruzioni Generali
AP Fleet Limited	Dublin	Ireland	Aircraft Hire and Sale	US dollar	12,000,000	100.00%	100.00%	-	
Azienda Aviagrica Abruzzese S.r.l.	Chieti	Italy	Real estate	€	48,048	72.77%	72.77%	-	
Calabria Energia S.r.l.	Chieti	Italy	Energy sector	€	10,000	80.10%		100.00%	Renexia S.p.A.
Circello 2 S.r.l.	Chieti	Italy	Energy sector	€	10,000	80.10%		100.00%	Renexia S.p.A.
Eurasia S.r.l.	Chieti	Italy	Harbour management	€	40,000	70.00%	70.00%		
Good Wind S.r.l.	Chieti	Italy	Energy sector	€	10,000	80.10%		100.00%	Renexia S.p.A.
IMC S.r.l. in liquidation	Chieti	Italy	Construction	€	12,000	51.00%	-	51.00%	Toto S.p.A. Costruzioni Generali
Indaco S.r.l.	Chieti	Italy	Energy sector	€	10,000	80.10%		100.00%	Renexia S.p.A.
Infraengineering S.r.l.	Chieti	Italy	Service companies	€	20,000	60.00%	60.00%	-	
InterSun S.r.l.	Chieti	Italy	Energy sector	€	30,000	80.10%	-	100.00%	Renexia S.p.A.
MedWind Sarl	Tunis	Tunisia	Energy sector	TND	5,000	80.00%	-	80.00%	Renexia S.p.A.
Parchi Global Service S.p.A.	Manoppello (PE)	Italy	Service companies	€	1,000,000	90.00%	90.00%	-	
Parchi Scarl	Chieti	Italy	Construction	€	10,000	100.00%	-	100.00%	Toto S.p.A. Costruzioni Generali
Pontepo Scarl	Chieti	Italy	Construction	€	10,000	73.73%	0.00%	73.73%	Toto S.p.A. Costruzioni Generali
Renexia Services S.r.l.	Chieti	Italy	Energy sector	€	100,000	80.10%		100.00%	Renexia S.p.A.
Renexia S.p.A.	Chieti	Italy	Energy sector	€	5,000,000	80.10%	80.10%	-	
Spartivento S.r.l.	Chieti	Italy	Energy sector	€	10,000	80.10%		100.00%	Renexia S.p.A.
Strada dei Parchi S.p.A.	Rome	Italy	Concessions	€	48,114,240	98.00%	93.00%	5.00%	Toto S.p.A. Costruzioni Generali
Toto Real Estate S.p.A.	Chieti	Italy	Real Estate	€	10,000,000	100.00%	100.00%		
Toto S.p.A. Costruzioni Generali	Chieti	Italy	Construction	€	50,000,000	100.00%	100.00%	-	
Toto Tech S.r.l.	Chieti	Italy	Car fleet management	€	10,000,000	100.00%	-	100.00%	Toto S.p.A. Costruzioni Generali
US Wind Inc	Boston	USA	Energy sector	US dollar	100,000	80.10%	-	100.00%	Renexia S.p.A.
Volere Volare S.r.l.	Chieti	Italy	Energy sector	€	10,000	80.10%		100.00%	Renexia S.p.A.

Company	Registered office	Country	Business	Currency	Subscribed share/ quota capital	% of share/quota capital held	% direct	% indirect	Indirect investments
<b>INVESTMENTS RECOGNISED AT COST</b>									
<b>Associates</b>									
Intermodale S.r.l.	S. Giovanni T. (Ch)	Italy	Construction	€	8,000,000	49.90%	-	49.90%	Toto S.p.A. Costruzioni Generali
Novigal Scarl	Bari	Italy	Construction	€	10,000	33.00%	-	33.00%	Toto S.p.A. Costruzioni Generali
San Benedetto Val di Sambro Scarl	Rome	Italy	Construction	€	10,000	36%	-	36%	Toto S.p.A. Costruzioni Generali

Chairman of the Board of Directors

Paolo TOTO

## ANNEX 2 - LIST OF OTHER INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

Company	Registered office	Country	Business	Currency	Subscribed share/quota capital	% of share/quota capital held	% direct	% indirect	Indirect investments
<b>SUBSIDIARIES AND ASSOCIATES EXCLUDED FROM THE SCOPE OF CONSOLIDATION (OIC 17)</b>									
Parco Eolico Casalduni House S.r.l.	Chieti	Italy	Energy sector	€	40,000	100.00%		100.00%	Renexia S.p.A.
Toto S.p.A. in association with Taddei S.p.A. Scarl	Chieti	Italy	Construction	€	10,000	51.00%	-	51.00%	Toto S.p.A. Costruzioni Generali

These companies were excluded from the scope of consolidation since their financial statements are not relevant to the true and fair view of the group or are held for sale (Parco Eolico Casalduni House S.r.l.).

Chairman of the Board of Directors

Paolo TOTO

### ANNEX 3 - LIST OF OTHER INVESTMENTS RECOGNISED AT COST

Company	Registered office	Country	Business	Currency	Subscribed share/quota capital	% of share/quota capital held	% direct	% indirect	Indirect investments
<b>INVESTMENTS RECOGNISED AT COST</b>									
<b><i>Other investments</i></b>									
Compagnia Aerea Italiana S.p.A.	Rome	Italy	Air transport	€	3,526,846	0.06%	0.06%	-	
Consorzio Autostrade Italiane Energia	Rome	Italy	Electricity Market Procurement	€	112,107	5.40%	-	5.40%	Strada dei Parchi S.p.A.
Dirpa Scarl	Rome	Italy	Construction	€	500,000	0.01%	-	0.01%	Toto S.p.A. Costruzioni Generali
Forum Scarl	Rome	Italy	Construction	€	51,000	0.01%	6.00%	0.01%	Toto S.p.A. Costruzioni Generali
Fiumicino Pista Scarl	Rome	Italy	Construction	€	10,200	0.01%	-	0.01%	Toto S.p.A. Costruzioni Generali
Interporto Valpescara S.p.A.	Manoppello (Pe)	Italy	Logistics	€	336,629	17.53%	17.53%	-	
Janus Pharma S.r.l.	Rome	Italy	Scientific Research	€	60,000	16.67%	16.67%	-	
Mediapharma S.r.l.	Chieti	Italy	Scientific Research	€	117,362	5.00%	4.50%	-	

Chairman of the Board of Directors

Paolo TOTO

#### ANNEX 4 – Reconciliation between net equity and the net profit of TOTO Holding S.p.A. with consolidated net equity and net profit

(in €'000)	NET EQUITY	NET PROFIT/LOSS
<b>NET EQUITY AND NET PROFIT OF TOTO HOLDING S.p.A. AT 31/12/2017</b>	<b>297,079</b>	<b>5,755</b>
Elimination of investments	(197,011)	7,544
Goodwill arising on consolidation (SDP concession)	32,840	(2,526)
Elimination of 2016 dividends	0	(5,900)
Other consolidation adjustments (e.g. IAS 17)	159	46
Write-off of the hedging reserve	0	0
<b>NET EQUITY AND NET PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP AT 31/12/2017</b>	<b>133,067</b>	<b>4,919</b>
Net equity and net profit - minority interests	10,329	3,199
<b>CONSOLIDATED NET EQUITY AND NET PROFIT AS AND FOR THE YEAR ENDED 31/12/2017</b>	<b>143,396</b>	<b>8,118</b>

#### ANNEX 5 - Statement of changes in group's consolidated net equity

(amounts in euro)	Share capital	Legal reserve	Extraordinary reserve	Revaluation reserve L.D. no. 185/08	Reserve for unrealised exchange rate gains	Reserve for translation of foreign operations	Hedging reserve	Losses carried forward	Profit (loss) for the year	Total
<b>Opening balance 01/01/2017</b>	<b>100,000,000</b>	<b>1,796,239</b>	<b>242,485,940</b>	<b>17,560,599</b>	<b>251,072</b>	<b>16,537,572</b>	<b>(83,549,240)</b>	<b>(177,984,486)</b>	<b>(2,135,603)</b>	<b>114,962,093</b>
<b>Changes for the year:</b>										
Opening and consolidation entries						(16,537,572)	83,549,240	12,176,065		79,187,733
Alloc. of prior year net loss		315,038			(251,072)			(2,135,603)	2,135,603	63,966
Effect of translating the financial statements of foreign operations						2,687,195				2,687,195
Effect of IAS 17								112,957		112,957
Hedging reserve							(68,865,871)			(68,865,871)
Net profit for the year									4,918,350	4,918,350
<b>Closing balance 31/12/2017</b>	<b>100,000,000</b>	<b>2,111,277</b>	<b>242,485,940</b>	<b>17,560,599</b>	<b>0</b>	<b>2,687,195</b>	<b>(68,865,871)</b>	<b>(167,831,066)</b>	<b>4,918,350</b>	<b>133,066,424</b>

Chairman of the Board of Directors

Paolo TOTO



## ***Independent auditor's report***

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

To the shareholders of Toto Holding SpA

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### ***Report on the Audit of the Consolidated Financial Statements***

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#### ***Opinion***

We have audited the consolidated financial statements of the Toto Holding Group (the Group), 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 consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with 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 Consolidated Financial Statements* section of this report. We are independent of Toto Holding SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements***

The directors are responsible for the preparation of consolidated 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 they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern

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#### ***PricewaterhouseCoopers SpA***

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basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Toto Holding SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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

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

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



- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

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### ***Report on Compliance with other Laws and Regulations***

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#### ***Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10***

The directors of Toto Holding SpA are responsible for preparing a report on operations of the Toto Holding Group as of 31 December 2017, including its consistency with the relevant consolidated financial statements and its compliance with the law.

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

In our opinion, the report on operations is consistent with the consolidated financial statements of Toto Holding Group as of 31 December 2017 and is prepared in compliance with the law. With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Pescara, 20 July 2018

PricewaterhouseCoopers SpA

*Signed by*

Stefano Amicone  
(Partner)



*This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the financial statements referred to in this report.*

TOTO Holding S.p.A.

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