Financial Statements

as of 31st December 2017

112th Financial year

AEDES SiiQ
COMMERCIAL PROPERTIES

Financial Statements

as of 31st December 2017

112° Financial year

AEDES SIIQ
COMMERCIAL PROPERTIES

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1 COMPANY PROFILE

1.1 Letter to Shareholders

Shareholders,

in 2017, we continued to purchase rented assets and move further ahead with our development projects to implement additional rented assets in the short and medium term, in accordance with the property company model adopted in our capacity as a SIIQ/REIT.

In light of the financial position and results of operations of the Parent Company at 31st December 2017, the second reference year for verifying the parameters set by the Special Regime of SIIQs/REITs, we have met the asset and profit requirements a year ahead of the legally-prescribed grace period.

Key events in the year under review:

a) conclusion of the town-planning agreement on the Caselle retail project (113,000 m² of GLA), following the permitting process, and launch of the activities leading up to its development phase;
b) acquisition and ensuing merger of Retail Park One S.r.l. into Novipraga SIINQ S.p.A., which pushed forward the development of Phase C of the Serravalle Retail Park, slated to open in spring 2018;
c) continued purchase of properties, with two office towers in Via Richard, Milan, covering a total area of approximately 15,000 m²; the refurbishment planning phase has been completed, and rental marketing is now underway; specifically, a lease contract has already been concluded with a major tenant for one of the towers, with revenue starting to flow in from the fourth quarter of 2019 at the end of the refurbishment phase agreed on with the tenant;
d) conclusion of the investment agreement on “The Market San Marino” between Aedes SIIQ S.p.A. and BG Asset Management S.A. (Borletti Group) and other partners, for the acquisition by Aedes of a 40% share in the capital of the company appointed to act as General Partner of the project. The development deadline is set by 2020, with an investment for Aedes up to such date of Euro 23.6 million (of which Euro 2.7 million already paid in 2017), with the option to review part of the commitment. The agreements include, *inter alia*, a call option granted to Aedes for the purchase of the entire project, exercisable in 2022 at market value.

The focus on property company activities has resulted in the disposal of properties under working capital and of non-strategic properties under fixed assets.
Specifically investments and real estate inventory were sold, generating a gain of Euro 10.4 million.

In 2017, Aedes SIIQ confirmed its presence in the EPRA - European Public Real Estate Association - conforming to the main international Reits on financial reporting. The 2017 Financial Statements, as last year, contain an explanatory section on EPRA financial indicators.

The year 2017 saw the Aedes Group renew its commitment to Corporate Social Responsibility, reiterating the awareness of how its business is directly involved in the three domains of sustainability: economic, social and environmental.
This explains the preparation again, in 2017, of the Sustainability Report, which shows, through qualitative and quantitative indicators, the past and current actions adopted by the Group in the pursuit of sustainable development, consistent with the social and environmental backdrop, and respecting the values, expectations and needs of today and investing in tomorrow’s generations.
The Aedes Group is aware that business should not be restricted to merely producing financial results, but to developing a responsible industrial model aimed at achieving shared objectives, by adopting a transparent approach towards all its Stakeholders: investors, business partners, employees, clients and suppliers.

Aedes SIIQ S.p.A. closes 2017 on a positive note and will seek in 2018 to continue on the path leading to the Group’s growth in the coming years.

The Chairman
Carlo A. Puri Negri

The Chief Executive Officer
Giuseppe Roveda

1.2 Corporate Governance

BOARD OF DIRECTORS

Giuseppe Roveda	Chief Executive Officer
Carlo A. Puri Negri	Chairman
Benedetto Ceglie	Vice-Chairman
Giacomo Garbuglia	Director [1]
Adriano Guarneri	Director [1]
Dario Latella	Independent Director [2,3]
Annapaola Negri-Clementi	Independent Director [1,2,3]
Giorgio Robba	Independent Director
Serenella Rossano	Independent Director [2,3]

BOARD OF STATUTORY AUDITORS

Cristiano Agogliati	Chairman [4]
Fabrizio Capponi	Standing Auditor [4]
Sabrina Navarra	Standing Auditor [4]
Giorgio Pellati	Alternate Auditor
Roberta Moscaroli	Alternate Auditor
Luca Angelo Pandolfi	Alternate Auditor

INDEPENDENT AUDITORS

Deloitte & Touche S.p.A.

[1] Finance and Investment Committee
[2] Control, Risk and Related Party Transactions Committee
[3] Remuneration and Appointments Committee
[4] On 11th June 2015, the Board of Directors resolved to assign the Board of Statutory Auditors the functions of Supervisory Body

1.3 Shareholder Structure

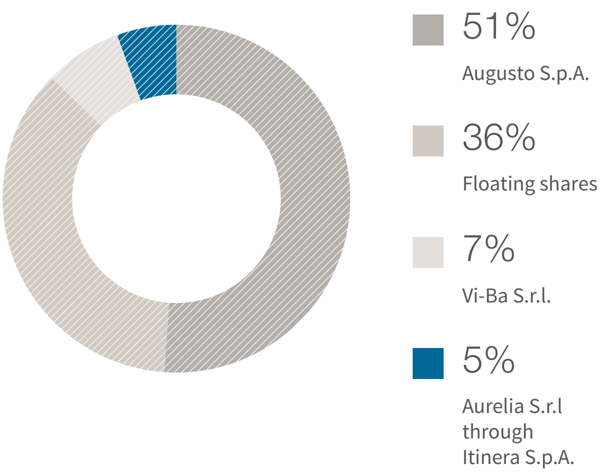
There were no changes in 2017 in the share capital of Aedes SIIQ S.p.A. and in the number of shares issued.

At the date of approval of this Report, the share capital of Aedes SIIQ S.p.A. amounts to Euro 212,945,601.41 and is divided into 319,803,191 ordinary shares.

The table below shows the list of shareholders holding over 5 (five) percent of the issued share capital[1] at 31st December 2017, based on Consob communications[2] and the updated Shareholders' Register, as well as on other information available to the Company at that date.

Shareholders	Number of shares	% of share capital
Augusto S.p.A.	163,752,436	51.20%
Vi-Ba S.r.l.	23,379,885	7.31%
Aurelia S.r.l. through Itinera S.p.A.	16,935,541	5.30%
Floating shares	115,755,329	36.19%
Total Shares	**319,823,191**	**100.00%**

Given the relevant shareholder structure, calculated on the basis of 319,803,191 ordinary shares outstanding at 31st December 2017, the shareholder base is composed as shown in the chart. Mention should be made that, out of a total of 86,956,536 warrants, 86,954,220 are still outstanding, entitling their holders to subscribe to 1 Aedes SIIQ S.p.A. share at a price of Euro 0.69 each for every 3 warrants held.



Treasury shares

At 31st December 2017, Aedes held 30,000 ordinary shares to support the liquidity provider activities of Intermonte SIM S.p.A..

[1] Received under art. 120 of Legislative Decree no. 58/1998

[2] Taking account of the SME status of the Company, pursuant to art. 1, par. 1, lett. w-quater. 1, of Legislative Decree no. 58/1998

2 DIRECTORS' REPORT ON OPERATIONS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2.1 Performance Measures

FINANCIAL HIGHLIGHTS[3]

	2016	2017
NOI	14.0	13.6
EBITDA	0.8	0.8
EBIT	30.3	16.3
NET RESULT	30.2	9.4
GAV[4]	398.6	481.6
GFP	(163.2)	(239.0)
LTV%[5]	40.9%	49.6%
PROPERTY NAV[6]	243.8	301.2
EQUITY	303.4	312.8
NFP	(150.6)	(215.7)
GEARING RATIO	54%	76%
AVERAGE COST DBT%	2.62%	3.14%
EPRA NAV	299.8	317.0
EPRA NAV/SHARE	0.95	0.99
EPRA NNNAV	300.1	316.7
EPRA NNNAV/SHARE	0.95	0.99

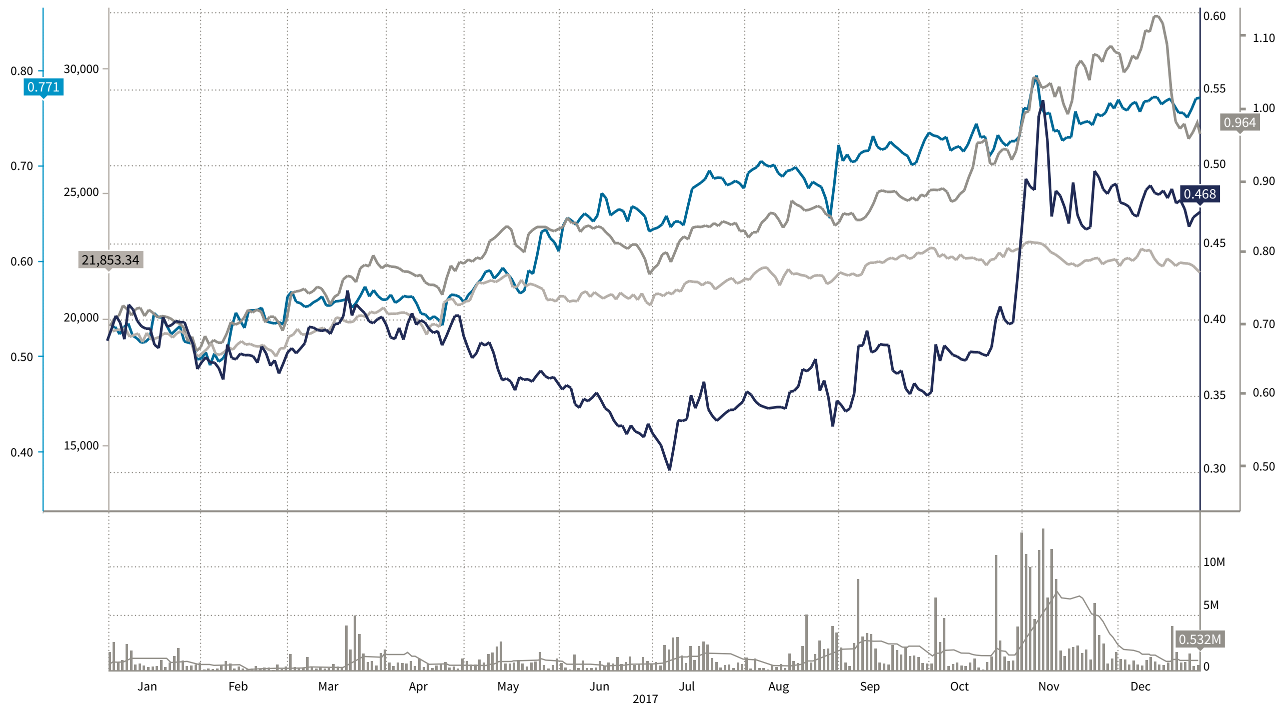
MARKET PERFORMANCE[7]

Aedes share on the Stock Exchange

In the opening months of 2017, the performance of the Aedes share (AE.IM) was basically in line with the market index, while underperforming its main competitors. The share then turned bullish from the second half of April to end October and outperformed the market, maintaining a steady course in November and December.

The chart below shows the trend of the Aedes share versus its main competitors and the market index[9].

[3] Figures in Euro millions
[4] Consolidated data
[5] PFL / GAV. Taking into account the debt allocated only on real estate the LTV ratio is 37.5%
[6] Consolidated data
[7] Source Bloomberg
[8] Beni Stabili SIIQ and IGD SIIQ
[9] FTSEMIB Index



AE IM Equity 0.468 — IGD IM Equity 0.964 — BNS IM Equity 0.771 — FTSEMIB 21,853.34

Key statistic and price trend of the Aedes share:

Price at 30th December 2016:	Euro 0.3860	Maximum price:	Euro 0.5390 (7th November 2017)
Price at 29th December 2017:	Euro 0.4680	Minimum price:	Euro 0.3035 (6th July 2017)
Change YoY:	21%	Average price YoY:	Euro 0.3879

Market capitalization at 29th December 2017:
Euro 149.7 million

VOLUME 0.532M	USE PRICE 0.468	Maximum 11/07/2017 0.539	Average 0.3879	Minimum 07/06/2017 0.3035

Warrant performance

Following the issue of shares arising from the capital increase with pre-emption rights in 2015, 86,956,536 2015-2020 Aedes Warrants were allocated without charge. The capital increase with pre-emption rights of up to Euro 40,000,006.56 at a price of Euro 0.46 per share provided, in fact, for the issue of up to 86,956,536 Aedes ordinary shares, combined with as many free warrants, and for a concurrent capital increase of up to Euro 20,000,003.28, at a price of Euro 0.69 per share, including premium and, therefore, for a maximum of 28,985,512 Aedes ordinary shares to service the exercise of the warrants.
Trading of the 2015-2020 Aedes Warrant began on 30th June 2015, with an initial price of Euro 0.0503. The chart below shows the 2015-2020 Aedes Warrant in 2017.

VOLUME	LAST PRICE	Maximum 11/07/2017	Average	Minimum 08/03/2017
0.300M	0.045	0.0523	0.0385	0.0306

Out of a total of 86,956,536 warrants, 86,954,220 are still outstanding, entitling their holders to subscribe to 1 Aedes SIIQ S.p.A. share, at a price of Euro 0.69 each for every 3 warrants held.

2.2 Net Asset Value

At end 2017, the EPRA NNNAV of the Aedes Group amounted to Euro 316.7 million, including the pro-rata share of equity held through joint ventures, real-estate funds and associates measured at equity, taking account of the market value of the properties owned by them.

The table below shows the NAV and NNNAV of the Aedes Group:

(Euro/000)	31/12/2017	31/12/2016
Outstanding shares (*)	319,773,191	316,303,191
EPRA Net Asset Value		
Equity from IFRS	313,201	296,408
NAV		
Includes:		
Revaluation of investment property	0	0
Revaluation of Properties under Development	15	120
Revaluation of other investments (property investments)	1,584	1,525
Revaluation of inventory	1,919	1,415
Excludes:		
Fair value of derivative financial instruments	238	375
EPRA NAV	**316,957**	**299,843**
EPRA NAV per share	**0.99**	**0.95**
Fair value of derivative financial instruments	(238)	(375)
Fair value of financial debt	(24)	650
EPRA NNNAV	**316,695**	**300,118**
EPRA NNNAV per share	**0.99**	**0.95**

(*) net of treasury shares

The diluted EPRA NAV and EPRA NNNAV are not meaningful since the outstanding warrants, being out of the money at the reporting date, would have an antidilutive effect. Their calculation was, therefore, deemed unnecessary.

With a NNNAV per share of Euro 0.99 and a NAV per share of Euro 0.99, the price of the Aedes share has offered a considerable discount so far (approximately -60%). The Company has already launched a series of activities, including the re-appointment of Intermonte SIM S.p.A. as Financial Intermediary for the purchase and sale of shares and as Liquidity Provider and Specialist of the Aedes share, as well as several investor relations initiatives to increase the visibility of the share and allow the gradual approximation of its price to the NNNAV.

In relation also to Consob recommendation no. DIE/0061944 of 18th July 2013 on the preparation of the Consolidated Financial Statements at 31st December 2017, the Group, subject to certain exceptions specified below, made use of the services of CB Richard Ellis as primary independent valuer in order to carry out appraisals on the property portfolio to support the Directors in their assessments.
It should be noted that, for the Group's property portfolio held through the Petrarca Fund, the Group appointed K2Real S.r.l. as independent valuer, following the end of the three-year assignment by the Fund Management Company to CB Richard Ellis. The valuation assignments are awarded on the basis of fixed fees.

As the entire property assets of the Group are subject to appraisal by independent valuers, the directors have not identified any second-level indicators of impairment.

Attached are the property portfolio Evaluation Reports reviewed by CB Richard Ellis and K2Real S.r.l..

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VALUATION REPORT

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VALUATION REPORT

CBRE VALUATION S.p.A.
Via del Lauro 5/7
20121 Milano

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F + 39 02 65 56 7050

milan@cbre.com
www.cbre.com

This copy of the Report has been translated for information purposes only. In case of doubt or discrepancies the Italian version shall be read and it shall prevail.

Report date	19 February 2018
Addressee	Aedes SIIQ S.p.A. Via Morimondo n. 26 – edificio 18 20143 Milano To the kind attention of Dott. Alessandro Vitucci To the kind attention of Arch. Cristiano Ciappolino
The Property	Various (see list below) n. 57 mixed use properties located in Italy and France. For further details please refer to the summary table attached below.
Ownership Purpose	Investment
Instruction	To update the value asset by asset the unencumbered freehold interest in the subject properties (the Property) on the basis of Market Value, as at Valuation Date, in accordance with our engagement letter n. 76bis/16 dated 7 April 2016 and your confirmation dated 27 April 2016.
Valuation Date	31 December 2017
Capacity of Valuer	Independent

Purpose	Financial
Market Value	Market Value as 31 December 2017 **€ 418.889.000,00** **(FOUR HUNDRED EIGHTEEN MILLION EIGHT HUNDRED EIGHTY NINE THOUSAND EURO)** exclusive of VAT/marketing Our opinion of Market Value is based upon the Scope of Work and Valuation Assumptions attached, and has been primarily derived using comparable recent market transactions on arm's length terms. We have valued the Properties individually (asset by asset) and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in lots or as a whole. For further details, please refer to the summary table attached below.
Compliance with Valuation Standards	The valuation has been prepared in accordance with the RICS Valuation – Professional Standards 2017 which includes International Valuation Standards ("The Red Book"). We confirm that we have sufficient current local and national knowledge of the particular property market involved, and have the skills and understanding to undertake the valuation competently. Where the knowledge and skill requirements of The Red Book have been met in aggregate by more than one valuer within CBRE, we confirm that a list of those valuers has been retained within the working papers, together with confirmation that each named valuer complies with the requirements of The Red Book.
Special Assumptions	None
Variation from Standard Assumptions	None

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Market Conditions

The values stated in this report represent our objective opinion of Market Value in accordance with the definition set out above as of the date of valuation. Amongst other things, this assumes that the properties had been properly marketed and that exchange of contracts took place on this date.

Nevertheless, we cannot exclude that there are more segments of demand and/or offer, own of some of the activities examined, such as to change, but not significantly, the adoption of the single parameters we selected and used as a reference.

Verification

We recommend that before any financial transaction is entered into based upon these valuations, you obtain verification of the information contained within our report and the validity of the assumptions we have adopted.

We would advise you that whilst we have valued the Properties reflecting current market conditions, there are certain risks, which may be, or may become, uninsurable. Before undertaking any financial transaction based upon this valuation, you should satisfy yourselves as to the current insurance cover and the risks that may be involved should an uninsured loss occur.

Valuer

The Property has been valued by a valuer who is qualified for the purpose of the valuation in accordance with the RICS Valuation – Professional Standards (The Red Book).

Independence

The total fees, including the fee for this assignment, earned by CBRE VALUATION S.p.A. (or other companies forming part of the same group of companies within Italy) from the Addressee (or other companies forming part of the same group of companies) are less than 5.0% of the total Italian revenues.

Disclosure

The principal signatory of this report has not continuously been the signatory of valuations for the same addressee and valuation purpose as this report. CBRE Valuation S.p.A. has not continuously been carrying out valuation instructions for the addressee of this report.

CBRE Valuation S.p.A. has carried out Valuation services only on behalf of the addressee for under 5 years

Conflicts of Interest

We confirm that we have had no previous material involvement with the property, and that copies of our conflict of interest checks have been retained within the working papers.

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Reliance

This report is for the use only of the party to whom it is addressed for the specific purpose set out herein and no responsibility is accepted to any third party for the whole or any part of its contents.

Publication

Neither the whole nor any part of our Report nor any references thereto may be included in any published document, circular or statement nor published in any way without our prior written approval of the form and context in which it will appear.

Such publication of, or reference to this report will not be permitted unless it contains a sufficient contemporaneous reference to any departure from the Royal Institution of Chartered Surveyors Valuation – Professional Standards or the incorporation of the special assumptions referred to herein.

We inform that the present report has been prepared by:

- Barbara Crupi
- Marco Donadio (MRICS - Registered Valuer)
- Doris Mininni
- Alberto Montafia (MRICS - Registered Valuer)
- Raffaella Peloso (CBRE Hotel)
- Marinella Trossello (MRICS - Registered Valuer)

under the supervision of Manuel Messaggi, Elena Gramaglia MRICS and Raffaella Peloso (CBRE Hotel).

CBRE VALUATION S.p.A.

Valuation & Advisory Services

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Project Reference: 8772

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SCOPE OF WORK & SOURCES OF INFORMATION

Sources of Information

The valuation of the subject properties have been carried out according to the information received and considering new documentation provided by the Client, which we assumed to be complete and correct:

- Information on the development areas
- Floor areas (with floor and use breakdown)
- Lease contracts
- Costs to be paid by the Property owner (property taxes - I.M.U., TA.S.I., insurance for some assets)
- Plans
- Assumed development costs for some areas
- Urban information relative to the remaining building capabilities

Other potential sources of information are specified in the present certificate.

AEDES SIIQ provided us with all costs for the development areas to be paid by the Property owner, then CBRE checked these costs and considered them adequate. Asset n° 10 is an exception (CBRE assumptions)

The Property

Our certificate includes the single short reports containing a brief summary of the property details on which our valuations have been based as well as the relative valuation spreadsheets.

Inspection

In this semester, we inspected just assets n. 48-50

Areas

As instructed, we have not measured the Properties and we have relied upon floor areas provided to us by the Client: we have not verified surfaces provided and have not made check measurements.

Environmental Matters

We have been instructed not to make any investigations in relation to the presence or potential presence of contamination in land or buildings or the potential presence of other environmental risk factors and to assume that if investigations were made to an appropriate extent then nothing would be discovered sufficient to affect value.

We have not carried out any investigation into the past or present uses of the Property, nor of any neighbouring land, in order to establish whether there is any potential for contamination and have therefore assumed that none exists.

Repair and Condition

We have not carried out building surveys, tested services, made independent site investigations, inspected woodwork, exposed parts of the structure which were covered, unexposed or inaccessible, nor arranged for any investigations to be carried out to determine whether or not any deleterious or hazardous materials or techniques have been used, or are present, in any part of the Property.

We are unable, therefore, to give any assurance that the Property is free from defect.

Titles, Tenures and Lettings

Details of title/tenure under which the Property is held and of lettings to which it is subject are as supplied to us.

The lease situation relative to assets no. 34 to no. 51 is reported in the appendix; for some of these assets we have prudentially considered as "first lease expiry" the date of the break option included in the mentioned rent roll; please see paragraph Valuation Considerations of each asset in order to identify the considered assumption considered.

Where information from deeds, leases or other documents is recorded in this report, it represents our understanding of the relevant documents.

We should emphasise, however, that the interpretation of the documents of title (including relevant deeds, leases and planning consents) is the responsibility of your legal adviser.

We have not conducted credit enquiries on the financial status of any tenants.

The subject analysis aims to determine the Market Value of the subject property and not potential commercial licenses and/or relative start-ups.

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VALUATION ASSUMPTIONS

Market Value

The valuation has been prepared on the basis of "Market Value" which, in accordance with the RICS Valuation – Global Standards 2017 ("Red Book"), is defined as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

No allowances have been made for any expenses of realisation nor for taxation which might arise in the event of a disposal. Acquisition costs have not been included in our valuation.

No account has been taken of any inter-company leases or arrangements, nor of any mortgages, debentures or other charges.

No account has been taken of the availability or otherwise of capital based Government or European Community grants.

Rental Values

Rental values indicated in our report are those which have been adopted by us as appropriate in assessing the capital value and are not necessarily appropriate for other purposes nor do they necessarily accord with the definition of Market Rent stated in the "RICS Valuation – Professional Standards".

The Property

Landlord's fixtures such as lifts, escalators, central heating and other normal service installations have been treated as an integral part of the building and are included within our valuations.

All measurements, areas and ages quoted in our report are approximate.

Environmental Matters

In the absence of any information to the contrary, we have assumed that:

(a) the Property is not contaminated and is not adversely affected by any existing or proposed environmental law;

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(b) any processes which are carried out on the Property which are regulated by environmental legislation are properly licensed by the appropriate authorities;

(c) the Property possesses current energy performance certificates (APE) as required under government directives.

Repair and Condition

In the absence of any information to the contrary, we have assumed that:

(a) there are no abnormal ground conditions, nor archaeological remains, present which might adversely affect the current or future occupation, development or value of the property;

(b) the Property is free from rot, infestation, structural or latent defect;

(c) no currently known deleterious or hazardous materials or suspect techniques have been used in the construction of, or subsequent alterations or additions to, the Property;

(d) the services, and any associated controls or software, are in working order and free from defect.

We have otherwise had regard to the age and apparent general condition of the Property. Comments made in the property details do not purport to express an opinion about, or advise upon, the condition of uninspected parts and should not be taken as making an implied representation or statement about such parts.

Title, Tenure, Lettings, Planning, Taxation and Statutory & Local Authority requirements

Unless stated otherwise within this report, and in the absence of any information to the contrary, we have assumed that:

(a) the Property possesses a good and marketable title free from any onerous or hampering restrictions or conditions;

(b) all buildings have been erected either prior to planning control, or in accordance with planning permissions, and have the benefit of permanent planning consents or existing use rights for their current use;

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(c) the Property is not adversely affected by town planning or road proposals;

(d) all buildings comply with all statutory and local authority requirements including building, fire and health and safety regulations;

(e) only minor or inconsequential costs will be incurred if any modifications or alterations are necessary in order for occupiers of each Property to comply with the provisions of the relevant disability discrimination legislation;

(f) there are no tenant's improvements that will materially affect our opinion of the rent that would be obtained on review or renewal;

(g) tenants will meet their obligations under their leases;

(h) there are no user restrictions or other restrictive covenants in leases which would adversely affect value;

(i) where appropriate, permission to assign the interest being valued herein would not be withheld by the landlord where required;

(j) vacant possession can be given of all accommodation which is unlet or is let on a service occupancy; and

Our valuation does not consider any reduction relating to costs such as taxes, legal expenses, transfer, etc; all the amounts pertaining costs and/or return that have been mentioned in this valuation report, have to be considered net of VAT and leasing costs.

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PROPERTY REPORT

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PROPERTY DETAILS

The Property

The subject Property consists of n. 57 mixed-use assets located in Italy and France.

ASSET CODE	TOWN	ADDRESS
02-Pragaundici SIINQ S.p.A.	Serravalle Scrivia	Serravalle Outlet Village - Fase 7
03_1-Novipraga SIINQ S.p.A.	Serravalle Scrivia / Novi L.	Serravalle Retail Park - Fase C
03_2-Novipraga SIINQ S.p.A.	Serravalle Scrivia / Novi L.	Serravalle Retail Park - Fase A + B
04-Pragaotto S.r.l.	Serravalle Scrivia	La Bollina - Market Place
05-Pragaotto S.r.l.	Serravalle Scrivia	La Bollina - Sport & Recreational
06-Pragaotto S.r.l.	Serravalle Scrivia	La Bollina - CNS-Sviluppo residenziale
07-Pragaotto S.r.l.	Serravalle Scrivia	La Bollina - CAS1-Sviluppo residenziale Luxury
08-Aedes SIIQ S.p.A.	Santa Vittoria d'Alba	Roero Center - Fase C
09-Pragaotto s.r.l.	Santa Vittoria d'Alba	Roero Center - Fase D
10-Pragaquattro SIINQ S.p.A.	Castellazzo Bormida	Castellazzo Design Center
11-Satac SIINQ S.p.A.	Caselle	Caselle Designer Village - sviluppo
11-Satac SIINQ S.p.A.	Caselle	Caselle Designer Village - edificabilità
11-Satac SIINQ S.p.A.	Caselle	Caselle Designer Village - locazioni temporanee
12_1-AEDES SIIQ S.p.A.	Serravalle Scrivia	Praga Business Park
12_2-AEDES SIIQ S.p.A.	Serravalle Scrivia	Praga Business Park - Capacità edificatoria
13-Aedes SIIQ S.p.A.	Santa Vittoria d'Alba	Roero Center - Fase B
14-Pragaotto S.r.l.	Serravalle Scrivia	Serravalle Golf Hotel
15-Pragaotto S.r.l.	Serravalle Scrivia	Hotel Villa Bollina
16-Pragaotto S.r.l.	Serravalle Scrivia	Cascina Nuova
17-Pragaotto S.r.l.	Serravalle Scrivia	Cascina Vittoria
18-Pragaotto S.r.l.	Serravalle Scrivia	SS 35-Piazza XXVI Aprile- Res. P.to Genova
19_2-Pragafrance Sarl	Cannes - Francia	2 Bv. De la Croisette - P2
19_3-Pragafrance Sarl	Cannes - Francia	2 Bv. De la Croisette - P3
21-Soc. Agricola LaBollina Srl	Serravalle Scrivia	CAS1 - Comparto agricolo (Vigneti)
22-Pragaquattro SIINQ S.p.A.	Castellazzo Bormida-Borgoratto Alessandrino	Lotto Agricolo - Castellazzo-Borgoratto Alessandrino
23_1-AEDES SIIQ S.p.A.	Serravalle Scrivia	Capacità edificatoria urbanistica - produttiva
23_2-AEDES SIIQ S.p.A.	Serravalle Scrivia	Lotto 9C - commerciale
23_4-AEDES SIIQ S.p.A.	Serravalle Scrivia	Lotto 11 - produttivo
24_1-Novipraga SIINQ S.p.A.	Novi Ligure	Capacità edificatoria urbanistica - commerciale
24_2-Novipraga SIINQ S.p.A.	Novi Ligure	Capacità edificatoria urbanistica - produttiva
24_3-Novipraga SIINQ S.p.A.	Novi Ligure	Capacità edificatoria urbanistica - residenziale
25_1-Aedes SIIQ S.p.A.	Santa Vittoria d'Alba	Capacità edificatoria urbanistica - commerciale
25_2-Pragaotto s.r.l.	Santa Vittoria d'Alba	Capacità edificatoria urbanistica - produttiva
27-Aedes SIIQ S.p.A.	Milano	Via Agnello 12
28-Aedes SIIQ S.p.A.	Milano	Via San Vigilio 1
29-Pragaotto S.r.l.	Milano	Via Carlo De Angeli 3
32-Aedes SIIQ S.p.A.	Catania	Via Etnea 116 - 124
33-Aedes SIIQ S.p.A.	Roma	Via Veneziani, 56
34-Aedes SIIQ S.p.A.	Brescia A	Via Rieti, 6 - Sub.9 MAMOA
35-Aedes SIIQ S.p.A.	Brescia B	Via Rieti, 6 - Sub.8 - Happy Casa
36-Aedes SIIQ S.p.A.	Bra	Borgo San Martino (Strada Statale 231)
37-Fondo Redwood	Acqui Terme	Via Cassarogna 46
39-Aedes SIIQ S.p.A.	S. Giovanni Teatino	Via Vittorio Emanuele 57
40-Aedes SIIQ S.p.A.	Rosà	Via Capitan Alessio, 132
41_1-Aedes SIIQ S.p.A.	Caleppio di Settala	S.S. Paullese Km 10 - SAPORI ARTIGIANALI
41_2-Aedes SIIQ S.p.A.	Caleppio di Settala	S.S. Paullese km 10 - EURONICS
42-Aedes SIIQ S.p.A.	La Spezia	Via Carducci
43-Aedes SIIQ S.p.A.	Genola A	Via Frasinetto 24 - Unieuro
44-Aedes SIIQ S.p.A.	Genola B	Via Frasinetto 24 - Foot
45-Aedes SIIQ S.p.A.	Saluzzo	Via Torino 73
46-Aedes SIIQ S.p.A.	Castagnito A	S.P. Neive 16 - Unieuro
47-Aedes SIIQ S.p.A.	Castagnito B	S.P. Neive 69 - Bazar
48-Fondo Redwood	Roma	Via Salaria, 1272
49-Aedes SIIQ S.p.A.	Feudito Antico - Lamezia Terme	Località Comube, Blocco B6
50-Aedes SIIQ S.p.A.	Tavagnacco	Via Nazionale, 116
51-Aedes SIIQ S.p.A.	Trezzano S.N.	Via C. Colombo, 18/20
52 - Aedes SIIQ S.p.A.	Milano	Viale Giulio Richard 3-5

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VAT

In Italy, it is common and often advantageous from a fiscal standpoint for transfers of real estate to take place via transfers of the capital of real estate companies (so-called share deal as opposed to asset deal). Our valuations do not take into account this possibility, where it exists.

Costs such as taxes, legal and agency fees, etc., have been considered in addition to the assumed value; all costs and/or revenues stated in this report, as well as deriving values, are exclusive of VAT and marketing costs.

VALUATION CRITERIA

Valuation approach

We followed generally accepted valuation methods and principles.

In particular, in order to determine the Market Value of the subject properties, we have used the following valuation methods:

Comparable or Market Method

The Comparable or Market method is based on a comparison between the property in question and other similar properties recently disposed of or acquired on the same or competitive marketplaces. In case of lack of properties directly comparable with the subject property, we refer to cases which can be considered similar, carrying out appropriate corrections.

The values have been modified in order to consider parameters such as age, usury, state of maintenance and repair and location according to the market data collected.

Besides, in order to determine the final unit values, we have considered other factors which could influence them and in particular:

- the floor area layout;
- the building area;
- the type of construction;
- the assume duration;
- the particular characteristics in its current use.

Discounted Cash Flow Method

The valuation through the discounted cash flow has been carried out discounting the rents deriving from the in force lease contracts; at the end of the relative leases or lease periods, we assume, where necessary, a refurbishment for the change of use or a renewal of the properties in order to optimized and let them at congruous market rents; the optimized income has been capitalized.

Costs for the change of use and final capitalized value have been discounted at a rate which considers the risks deriving from the specific cases. The result of this operation determines the current value of each asset.

The elements considered in the DCF are:

- gross annual income deriving from the lease contracts;
- indexation of the current rents;
- time schedule relative to spaces occupation according to the lease contracts (use plan);

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- management costs of the rented buildings (Property tax - I.M.U., TA.S.I. -, administration, insurance, reserve for extraordinary maintenance, recording fee);
- potential investments necessary for the use optimization;
- time schedule for the optimization and re-lease;
- Capital Gain assumption;
- market rents;
- discounted and capitalization rates for each asset.

Residual (or Transformation) method

In order to state the Market Value of the subject Property, we have carried out the valuation applying the Residual (or Transformation) method, according to the submitted project, the received building permits and the market benchmark to compare with the subject Property.

The Residual (or Transformation) method, is based on the discount, at the date of valuation, of the cash flows calculated over a period corresponding the conversion of the area and of all the transactions, (cash flows are the result of the difference between income and costs) so the open market value is the difference between the open market value of the transformed area and the costs of development; income and costs are current values, discounted at a right rate. In order to identify the value obtained by the Transformation Method with its market Value, it is necessary to refer to an "ordinary" entrepreneur. An "ordinary" entrepreneur features good technical and organization skills, he can have access to third party financial means in order to finance the development operation, i.e. he is someone who produces a good at an average cost as the majority of the businessmen; someone whose aim is earn profits (Developer's Profit on Cost) proportional to the risk of the initiative, to the purchase costs and the costs to sustain to complete the initiative, to the potential revenues and relative time schedule; all "not-ordinary" transformation operations would create positive or negative extra profit.

For developments lasting less than 5 years, normally the main aspect of the investment is the Developer's Profit on Cost, a percentage between the expected margin (revenues-costs) and the total costs including the purchase of the Property.

On the contrary, for developments lasting more than 5 years normally the main aspect of the investment is the Equivalent Yield (unlevered target I.R.R.).

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Valuation methodologies

The market value of the subject properties has been obtained through on-site inspections carried out by CBRE VALUATION S.p.A., in order to determine the real estate situation at the present date (quality, conditions, characteristics, etc..) in addition to the documentation provided (floor area, uses, etc.).

<u>This semester we have inspected just assets n° 48-50</u>

Information on local market has been collected in order to determine all data necessary to develop valuation considerations (rental values and current prices, demand and supply levels, operators' expectations).

All data have been referred to the different functional uses of the properties, either the current use, in order to the determine the congruous rental value , and future use, in order to determine the highest and best use of the asset.

The highest and best use is defined as the reasonably probable and legal use which is physically possible, financially feasible, and that may confer the highest value to the property.

All data collected have been properly adjusted in order to be adapted to the specific characteristics of the properties under valuation; they have also been used to determine their attractiveness on the market itself.

In case of poor state of maintenance and repair of the buildings, we have determined costs and time schedule necessary to recover their physical condition in order to be in line with reference real estate market.

Floor area

Our valuation is based on data provided by the Property owner.

We have not measured any asset.

Lease situation

Our valuation is based on data provided by the Property owner.

Management costs

The amounts relative to Property taxes (I.M.U. and TA.S.I.) have provided by the Property owner and have not been verified.

State of maintenance and repair

CBRE have not undertaken a structural survey, nor tested the services. We have not carried out verification in order to establish whether there is any potential for contamination (asbestos or other toxic material) and have therefore assumed that none exists.

In case of poor state of maintenance and repair we have included in the D.C.F. capex in line with the Italian market habit.

Law verification

We have carried out the present valuation assuming that all properties are in line with the in force regulation relative to their use as at valuation date. We have not carried out any verification in relation to this regulations.

Taxes, other Management costs and Miscellaneous

In Italy we do not consider the transaction costs for valuations. For this reason our valuation does not include any deduction relative to costs such as direct and indirect taxes, legal costs and transaction costs, etc.

Portfolio valuations, Companies' Disposal, Postponed Payments

Each property has been valued singularly and not as belonging to a portfolio.

In Italy properties are often transferred through capital disposal of real estate companies (thus having often a fiscal profit). Our valuations do not take into consideration this possibility, if existing.

Information

We have relied up information provided by the Property owner and we assumed such information to be exact and complete.

Mortgage

We have not considered the potential presence of mortgages or similar which could be connected to the subject properties.

Basis of Value

Money indicators

The money indicators used (prices, costs, rents) derive from the local market surveys, supported both by our data base and by real estate publications, and are referred to the date of the present valuation.

Please note that the abovementioned considerations develop flows (costs-revenues) at **nominal** money (**real** money for developments).

Time schedule

According to the asset typology (land lot subject to development, income building, vacant building) we have considered different time schedules, in line with the assumed lease/sale strategy.

Management costs

Where the case, the considered costs to be paid by the Property owner are:

- Administration costs: variable amount based on the total rents or on the commericial area;

- Reserves for extra ordinary maintenance: determined as incidence on the Reinstatement Cost or on ERV;
- Insurance: for some assets provided by the Client, for other assets assumed as incidence on the Reinstatement Cost;
- Property taxes (IMU+TASI): provided by the Client;
- Recording fee: equal to 0.50% of the perceived rents;
- Miscellaneous (shared costs): partially assumed by CBRE, partially provided by the Client

Capex

In contrast to the Reserves for extra ordinary maintenance, the Capex are precise costs necessary to optimize and/or change the use of the property before its re-lease/disposal. The amounts stated in the report, as at valuation date, are obviously overrated when considered in the DCF.

Rents

The rents necessary for the valuation have been provided by the Client.

Market rents / Market prices

The market rents or market prices to consider at the end of the in force leases or relative to the vacant portions have been determined according to market data collected in the subject area.

Assumed inflation

We assumed an inflation equal to 1,40% for the whole period considered.

The data relative to trend inflation corresponds to the average 2016-2025 of the most recent forecasts of the consumption price index trend developed by Oxford Economics and used as source (https://www.oxfordeconomics.com/my-oxford/country-economic-forecasts/europe/italy).

Growth of Market Rent

We have assumed a market growth equal to the inflation assumed to be 1,40% starting from the second year.

Rates

Each asset has been valued singularly. The rates considered as basis of valuation are:

- **Discounted rate of the perceived rent;**
- **Discounted rate of the re-lease/disposal;**
- **Discounted rate of the development operation;**

Each rate includes the spread, the illiquidity and the segment risk, assuming a financial structure made by equity and by third party capital.

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The rate relative to equity is determined by adding to the risk free rate, assumed to be equal to the Rendistato Index, which is the weighted average yield on a basket[1] of government securities, calculated monthly by the Bank of Italy and used as reference index, a spread which considers the investment lack of liquidity and an additional spread which considers the specific investment risk (segment risk).

The Risk free rate is the Rendistato Index with homogeneous expiry compared with the investment period.

The lack of liquidity could be defined as the difficulty to convert the investment value in cash; it is a risk connected to the transaction period; this risks depend on the building features.

The segment risk is connected to the specific characteristics of the investment; the higher is the possibility that an expected result is not achieved, the higher is the risk of that investment. It is a risk which depends on the reference market characteristics and on the competitiveness of the property under valuation within the reference market.

These two factors determine the spread on equity.

The remuneration of debt (third party capital) is equal to the "I.R.S." rate at 15 years plus a spread connected to the total risk of the subject development initiative. The I.R.S. rate (Interest Rate Swap) is the benchmark rate calculated by the European Banking Federation that indicates the average rate at which the major European banks stipulate swaps to hedge interest rate risk. It is used as an indexation parameter in the financial markets and for the stipulation of bank loans.

The Spread is the additional delta that banks add to the above mentioned index in order to determine the loan rates. It depends on the investor's warranties and on the specific investment risk.

The return on equity is determined by adding to the Risk free rate a spread on equity (lack of liquidity + segment risk). Third party capital remuneration, instead, is equal to the "I.R.S" rate at 15 years plus a spread.

Considering the percentage basis of the financial structure, normally 50% and 50% respectively, we obtain the rate used in the valuation.

This is used either to determine the discounted rate of rents and the discounted rate of

[1] The basket on which is determined the Rendistato index consists of all treasury bonds ("BTP") quoted on MOT, with more than 1 year residual life. The BTP indexed to the inflation of the Euro zone are excluded. For further information please refer to the institutional web site of Bank of Italy (§http://www.bancaditalia.it/banca_centrale/operazioni/titoli/tassi/rendi)

the re-lease.

Vice versa the capitalization rate represents the "synthetic" factor, which allows the conversion from expected income into current value. This rate is deduced from the market as it represents the ratio between rental value and transaction price.

Fundamental Data of the used Rates

In the present valuation as at 31 December 2017 the considered fundamental data are specified as follows:

- Planned inflation: 1,40%
- Equity: 50% of the invested capital
- Equity – mobile average on 12 months gross Rendistato: 1,29%
- Debt: 50% of the invested capital
- Third party - mobile average on 12 months I.R.S. at 15 years: 1,21%

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sator immobiliare sgr

Fondo "Petrarca"
Valuation Analysis

P.R. – Project Report_*Abstract*

Reference Date: December 31st 2017

K2REAL
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Abstract

INDEX

1. OBJECT OF THE ANALYSIS

1.1. Identification

The perimeter relative to the real estate held in the real-estate investment fund reserved to **qualified investors, named** "Petrarca", managed by Sator Immobiliare SGR S.p.a., was, on the Reference Date of December 31st 2017, composed of num. 5 real estate assets identified below.

Real Estate Assets held by the Fund

Real estete assets held by "Petrarca" Fund_ Ref. Date: December 31st 2017		
N.	Description & Location	Main Use
1	**AGRATE BRIANZA - Via Cardano (Palazzo Astrolabio)** Location: business district Typology: office building	Office - retail
2	**AGRATE BRIANZA - Via Paracelso (Palazzo Andromeda)** Location: business district Typology: office building	Office
3	**MILANO - Viale Umbria** Location: semi-center Typology: loft/retail (medium size)	Retail - restaurants
4	**MILANO - Via Roncaglia** Location: semi-center Typology: office building	Office
5	**CINISELLO BALSAMO - Via Gorki** Location: semi-center Typology: office building	Office

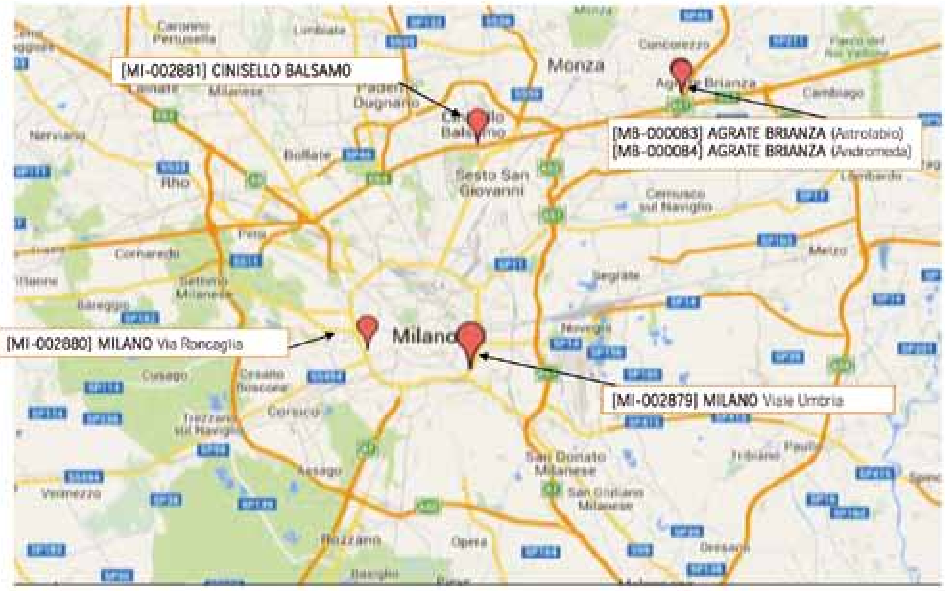
The portfolio's asset class is mainly office use with a total area, in terms of GLA - Gross Lettable Area, determined for the purposes of valuation at ca. 53,300 sqm.

1.2. Geographic distribution & location

The asset allocation for Fondo "Petrarca" is characterised by properties located in the Milan area:

- 2 assets are located within the "Centro Direzionale Colleoni" in the municipality of Agrate Brianza
- 1 assets located in the municipality of Cinisello Balsamo;
- 2 assets in a semi-central location within the municipality of Milan, close to the city's external ringroad or *circonvallazione esterna*.

Portfolio overview – location



The overall letting status of the portfolio which is held by the Fund, at the analysis Reference Date, results in a vacancy level equal to ca 55% of the GLA - Gross Lettable Area – considered for the purposes of the valuation. Specifically:

- [MB-000083] AGRATE BRIANZA Via Cardano (Palazzo Astrolabio)	*partially vacant*
- [MB-000084] AGRATE BRIANZA Via Paracelso (Palazzo Andromeda)	*partially rented*
- [MI-002879] MILANO Viale Umbria	*fully vacant*
- [MI-002880] MILANO Via Roncaglia	*fully rented*
- [MI-002881] CINISELLO BALSAMO Via Gorki	*partially vacant*

As far as regards the real estate assets (chapter 3), the phase concerning valuation analysis was conducted on an "AbyA - Asset by Asset" basis and in a "full analysis" manner, as illustrated in the relevant chapter.

2. VALUATION

2.1. Valuation purpose

With reference to each of n. 5 real estate asset indicated above, and held by the real estate closed-**end Fund named "Petrarca",** the valuation analysis has been carried out with the aim to express an Integrated Indication of Value, as of the Reference Date of December 31st 2017 **on an "AbyA – Asset by Asset" basis (e.g. considering each asset** as entire building or real estate complex), for the estimation of **"FV-Fair Value (as is)"** under the same assumptions as **"MV-Market Value"**[1], whereas **"FV-Fair Value (as is)"** is the estimated amount for which an asset or liability should exchange **between market buyers and sellers, in which it is physically and legally found ("as is") as of the** Reference Date, **whereas for status "as is", presuming the following items** - a state of preservation and maintenance conditions, a rental situation, zoning and urban planning situation, all surrounding characteristics and other eventual elements affecting the value – they are to be as verified and/or assumed by the typology of analysis as of the Reference Date.

Implicit in this definition is the consummation of a sale as of a specified date (i.e. the "Reference Date") and the passing of title from seller to buyer under ordinary conditions:

- buyer and seller are ordinary and typically **motivated (character of "ordinary counterparts"),** whereby for "ordinary" is to be intended the player of average economic, strategic and intellectual abilities, not to produce any elements affecting the free conclusion of the negotiation;
- "free determination of the counterparts" to the conclusion of the contract, without any restriction of knowledge and free will nor under compulsion: both parties are well informed or well advised, equipped of reasonable knowledge and acquaintance with regard to the nature and specific characteristics of the asset being negotiated, to its current/potential use and to the state of the free market as of the Reference Date, and acting according to their best interests without presuming any unfair behavior, so that the price is not affected by undue stimulus;
- a reasonable time was allowed for exposure on the open market: hypothesis that the real estate asset is offered on the free market for a period reasonably sufficient to collect the manifestation of interest from a willing counterpart (an interest to the purchase, in case the asset is offered on sale and/or an interest to the lease, in case the asset it is offered leasehold).

[1] See: VPS 4 (Value basis, assumptions and special assumptions) of the "International Valuation Standards – **RICS 2014**"

- payment is made in terms of cash (Euro) or in terms of financial arrangements comparable thereto;
- character of "ordinary negotiation" that expressly excludes special contractual terms or circumstances, such as atypical financings, agreements and particular concessions obtained by any of the subjects being involved in the sale: the transfer price represents the normal consideration for the asset sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

2.2. Valuation process

In order to estimate the FV-Fair Value of all the subject properties held by the **Fund, a "Full** Analysis**" has been carried out as of the Reference Date (on an "AbyA – Asset by Asset" basis).**

A "Full Analysis" is a complete valuation analysis including technical and site inspection (both the internal technical inspection of the asset and the inspection of the site where it is located), carried out after accurately making on-site inspections of the asset and based: on data obtained by documents supplied by the Client, know-how relative to market practice and applicable professional standards, and parameters provided by the most accredited Italian institutions monitoring the real estate market, as well as K2Real comparables database, and , especially, on all detailed and relevant information collected on site (such as quantity and quality / location and urban context / equipment and machinery / state of preservation and maintenance conditions / zoning / detailed investigation of the local reference marketplace, and all other relevant information necessary to complete the analysis).

With regard to size data (especially relating to floor areas), this was obtained from the documentation provided by the SGR or asset management company and was subject to spot checks during the site-inspection.

As far as regards the technical inspections, these were performed on all of the properties during the month of December 2015. We assume therefore that, at the Reference Date for this analysis, a **property's physical characteristics and its locational context have not changed significantly** compared to the situation identified during the last inspection carried out.

This analysis represents an "update appraisal", processed according to a "full, light analysis". On the Date of Reference of December 31st 2018, the variations in the values of the property asset may be derived from market fluctuations that have a positive or negative impact on it, from variations related to the evolution of the local urban context, from variations related to the state of preservations and/or maintenance conditions due to age, functional obsolescence, non- and/or deferred maintenance, from any variations to the plan forecasts concerning the current town-planning instrument and from any and every progress of works, in the event of property assets being the object of modernisation operations (transformation /upgrading/conversion/development).

With reference to the above, one is to understand that the appraisal followed a procedure similar to **that of a "full analysis", that is, a complete, inclusive appraisal with a technical&site inspection** (detailed technical inspection, both inside and out), processed based on the input data contained in the documentation supplied by the Client (or by someone on his behalf), on the know-how pertinent to evaluative practices and on the parameters collected from Institutional Sources through the real estate market observatory (OMI in Italian), on details detected on-site (location and urban context / asset value / technical installations / state of preservation / maintenance conditions / town-planning analysis / detailed survey of the local market and any and all other information required to develop the analysis), in addition to data available in the K2R database of comparables on the Date of Reference, adjusting them to the reduction of part of the activities ascribed on the strength of the nature of the analysis; in the case in point, reference has been made to the information supplied during the first appraisal (our ref. MF-15-0029.01 Date of Ref. 31/12/2015), as pertains to the technical documentation, whereas any updates derived from the results of the technical&site inspection and market variations were acknowledged, just as any and every variation that occurred within the management and rental situation.

2.3. Technicality & main assumptions

Better described, as above, the on-going activities involved in the valuation process aimed at estimating the FV-Fair Value (as is) of the each property; illustrated hereunder are the analysis criteria, approaches and main assumptions which have been relied on.

2.3.1. Technicality

During the valuation analyses, K2Real relied on generally accepted valuation concepts and methods, also recognized by the overall guidelines issued by the Bank of Italy in relation to the valuation of real estate assets belonging to Italian real estate funds, as well as on the overall guidelines to the international standards IVS and RICS, with particular reference to principles indicated within the so called "Red Book" i.e. "Standard professionali di valutazione RICS – Gennaio 2014" that represents the version in Italian language, with reference to the technicalities hereafter described.

(i) **"Income Approach / Financial Approach"** – based on cash-flow forecast, including income from operations and resale, and calculation on the present value of such cash-flows. In particular such technicality is referred to as "DCF-Discounted Cash Flow Analysis with TV-Terminal Value", provided by:

- determination, for the more appropriate period of time, of the future incomes deriving from the leases and/or sales (including TV-Terminal Value) of all or parts of the real estate asset by compounds and/or single entities that constitute it (entire building, portion of a building, real estate unit, land lot);
- determination of the eventual operating costs and of the eventual capital expenditures and/or costs of valorization, requalification and/or renovation;
- estimated UFCF-Unlevered Free Cash Flows pre-tax;
- accrual to the Reference Date of the appraisal of the cash flows.

(ii) **"Market Approach"** – based on the comparison of similar properties recently sold/leased or currently being sold/leased on the same marketplace or on different marketplaces having similar characteristics, as the reference asset, and adjusting them to the reference asset through adjustment factors depending on location, size, quality, utility, maintenance conditions, sales conditions and other issues affecting value.

For the purposes of determining the "IIV-Integrated Indication of Value", the technicalities of the analysis described above were applied depending on the needs of the analysis itself, as evidenced by individual appraisal forms and as specified in individual analytical reports about each real estate asset subject to analysis. For the purposes of this methodological note it can be stated that, in the context of the Financial Approach the Market Approach was inserted with regard to the determination of the rental level (MR-Market Rent/ERV-Estimated Rental Value) for the various uses considered, as well as for an assessment of the final value of the asset with reference to transactions comparable to the subject assets under analysis.

2.3.2. Parameters & assumptions

For the analyses according to the DCF-Discounted Cash Flow Analysis approach, the following assumptions are used as a basis for the analysis.

(i) projections were effected in currency (nominal terms);

(ii) inflation index was calculated as a geometric mean of historical inflation and programmed inflation (over a period of 10 years);

(iii) an increase in market values and rents in line with inflation index was foreseen;

(iv) incomes were re-evaluated annually based on laws in force, i.e. at 75% of the ISTAT index relative to consumer prices for families of workers and employees;

(v) a percentage of vacancy and variable irrecoverableness (credit loss) was adopted depending on the possibility of renewing the existing contracts and/or finding a new tenant upon their expirations, taking into consideration the typological characteristics of the property, the average absorption timing by the reference marketplace and the specific interest by the tenant in the property itself;

(vi) property management and administrative expenses have been calculated as a percentage of potential gross receipts;

(vii) insurance of the property was based on data supplied by the Client;

(viii) estimate of the percentage of extraordinary maintenance, whenever the real value provided by the Client is not available, as a percentage of the Reinstatement Cost[2]. In particular, in **accordance with consolidated appraisal practice, "Maintenance"** may generally vary as a **function of the type of building construction, the construction period, etc...** (so as to anticipate greater/lesser maintenance requirements for the building in the medium- and long-term);

[2] Defined as the cost to rebuild the asset in accordance with the construction technologies and with materials used during the original period of construction, for insurance purposes, with the explicit exception of land.

(ix) estimation of registration tax on rental agreements as per National Law N. 248/2006, as conversion law of Decree N. 223/2006, conventionally assuming a split of the amount due (1% of the agreed rent) by 50% between Lessor and Lessee;

(x) IMU (Municipality Tax on Real Properties) was based on data supplied by the Client.

(xi) estimate of direct development costs based on a detailed estimate of expenditure per individual quantity to be built/converted/put to new use by type of project (demolition, construction, renovation and transformation in the broad sense of the term), unless an amount for the completion of these activities has already been determined

(xii) Adoption of special assumptions regarding the disposal of the portfolio in the long term so as to overcome the current critical issues regarding the transfer of the whole portfolio to the SIIQ holding the Real Estate Fund, in application of the Italian decree "Sblocca Italia".

Abstract

RESULTS

Throughout the analysis carried out, and based on all the above premises, main assumption and basic parameters, we can reasonably indicate its IIV-**Integrated Indication of Value ("FV-**Fair Value (as is)**") about the assets** object of valuation analysis, as of the Reference Date of December 31st 2017.

The following is attached S.V.-Summary of Values (regards detail and specific consideration, see the analytical reports).

S.V.-Summary of Values as of December 31st 2017

Real estete assets held by "Petrarca" Fund_ Ref. Date: December 31st 2017		
N.	Assets	FV-Fair Value [euro]
1	Agrate Brianza; Via Cardano 2	62.700.000,00 (euro sixty-two million seven hundred thousand,00)
2	Agrate Brianza; Via Paracelso 20	
3	Milano; Viale Umbria	
4	Milano; Via Roncaglia	
5	Cinisello Balsamo; Via Gorki	

In view of the above, and with express reference to the basic parameters and main assumptions, as set forth in the paragraph of the same title, and without prejudice to the market context and disclaimers, as per the attachments that form an integral part of this document, it is deemed reasonable that the most probable equivalent economic value of the assets in question, in the state of fact and law, in which they are found on the Date of Reference and on the basis of the documentation supplied, corresponds to the values expressed, hereby pointing out the volatility derived from the scenario of uncertainty - intensified by **"Brexit", which has not yet been fully stabilised, and from the vagueness concerning** *national and global political-economic prospects – within which they have been estimated.*

Respectfully submitted.

K2REAL – Key to Real
Real Estate Partners
Chartered Surveyors

Tania Garuti – MRICS
Managing Partner

Annex – Modus Operandi & Limiting Conditions

1 K2Real expressly indicated the Reference Date on which every opinion of value and/or any deliberation implemented was referred. The opinion of value expressed was based on the rental and zoning situation, market conditions and purchasing power of the currency as of the Reference Date.

2 K2Real did not investigate the title to or any liabilities against the real estate properties, but relied on the information provided by the Client. For the purpose of the valuation, K2Real assumed that the right of ownership was exercised within the borders and that there was no violation of property rights or trespassing. K2Real do not neither investigate nor assume any responsibility with regards to any right or encumbrance of the properties under appraisal.

3 Possible environmental liabilities of the subject properties are not considered. Environmental liabilities are the costs which may be incurred to avoid environmental damages or to modify situations which do not comply with ongoing regulations. K2Real did not carry out any environmental enquiry but it exclusively formulated, for the valuation purposes, an hypothesis on the conformity of the real estate to the environmental regulations in force.

4 The analysis that K2Real carried out specifically exclude examination of the environmental impact derived from dangerous substances (asbestos, formaldehyde, toxic waste, etc.) or potentially dangerous substances, or structural damages and contamination derived from the effects of earthquakes.

5 K2Real shall not proceed with on-site, metric measurements, aimed at verifying the surface areas and dimensions of the real estate assets in the purpose of this evaluation.

6 K2Real did not make a specific compliance survey to verify permits, building licenses or assessments, but it has considered the properties as conforming to existing regulation. K2Real did not carry out verifications on the compatibility of the real estate assets with the prescriptions in force about accessibility of the disabled to work places.

7 K2Real did not carry out any soil analyses, nor investigated eventual issues regarding the exploitation of gas and minerals present in the subsoil.

8 The analysis K2Real conducted specifically excluded the review of legal and fiscal aspects.

9 K2Real conducted market surveys, the results of which it considers representative of the market situation on the date of reference of this valuation. Nevertheless, it is impossible to rule out that other segments of supply and/or demand, in reference the activities analysed, that can cause part of the unitary parameters used as input data in this analysis to vary, although not significantly, exist. It should be also noted that any issue in relation with sustainability do not reflect the criteria for a specific operator, but broader market criteria.

10 The expressed values do not include VAT and the costs were not considered, therein including taxes, potentially associated with the sale and/or acquisition of the property assets.

11 This document and the attachments of which it is composed contain forecasts and projections made by K2Real relative to the performance of the accommodation sector. K2Real also analysed the economic and financial analyses provided by the Customer and the assumptions underlying the relative models. Considering however that it is impossible to predict future events with certainty, any conclusion relative to economic and financial forecasts cannot be considered definite, nor can the comments presented by K2Real be considered a guarantee of the anticipated developments.

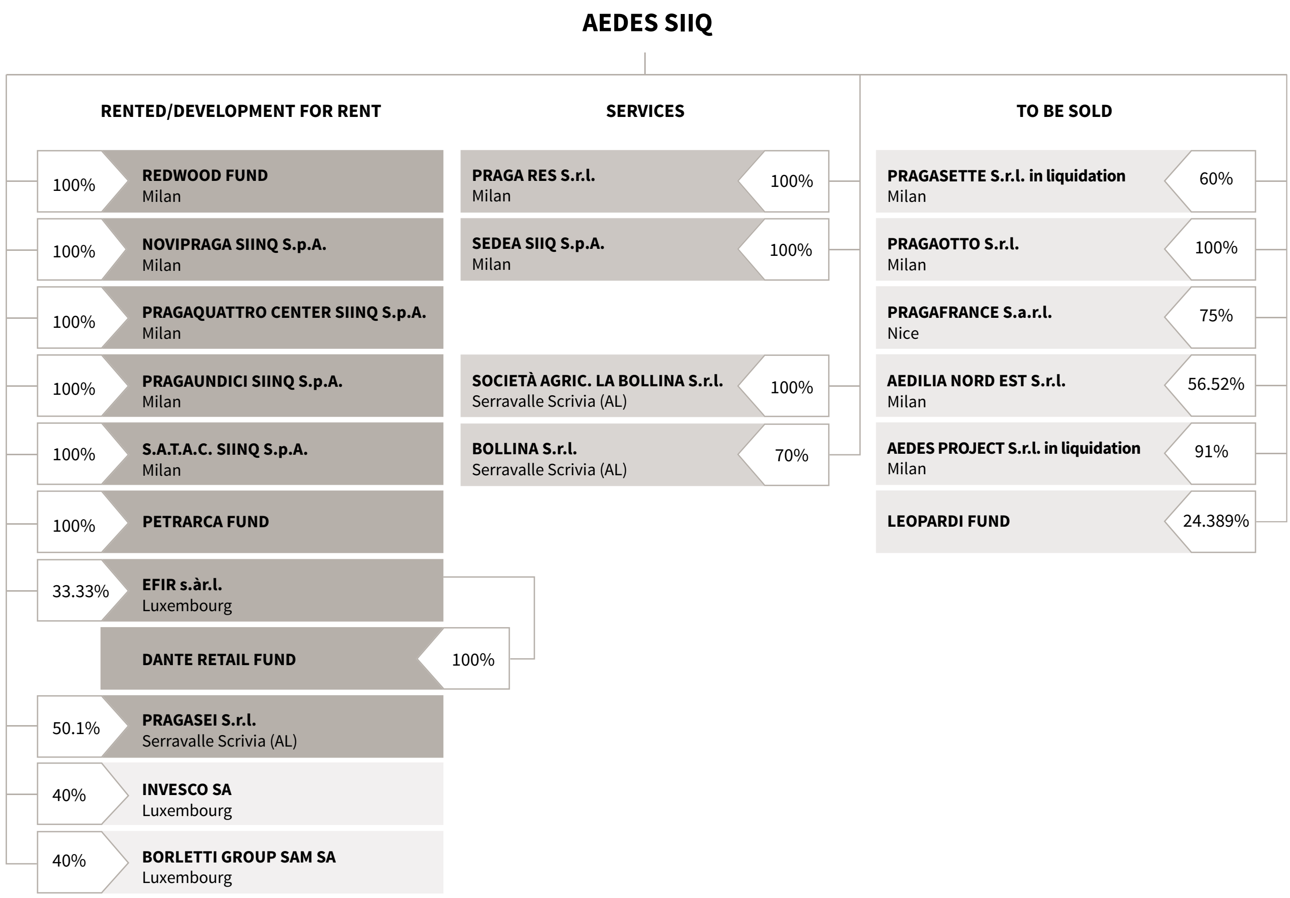
12 Also considering that the past returns are not indicative of future returns, K2Real provides no guarantee that the Customer will achieve investment targets nor does it assume any liability for possible inaccuracies regarding the data reported and/or elaborated in this document, and in the attachments of which it is comprised.

2.3 Group Structure

Aedes SIIQ S.p.A. ("**Aedes**", the "**Company**" or "**Parent Company**"), founded in 1905, was the first real-estate company to be listed on the Milan Stock Exchange in 1924. Following the decision to join the statutory and tax regime typical of listed property investment companies (so-called SIIQ/REIT Regime), Aedes switched to SIIQ/REIT status on 1st January 2016, adopting the name Aedes SIIQ S.p.A..

Aedes is an ancient name that has its roots in Latin, and its meaning is home, temple or construction. Aedes SIIQ was created with the aim of enhancing a valuable asset - property - making it evolve into a common good that generates benefits for the whole community. A time-honoured tradition for the social well-being of present and future generations.

The simplified structure of the Group at 31st December 2017 was as follows:

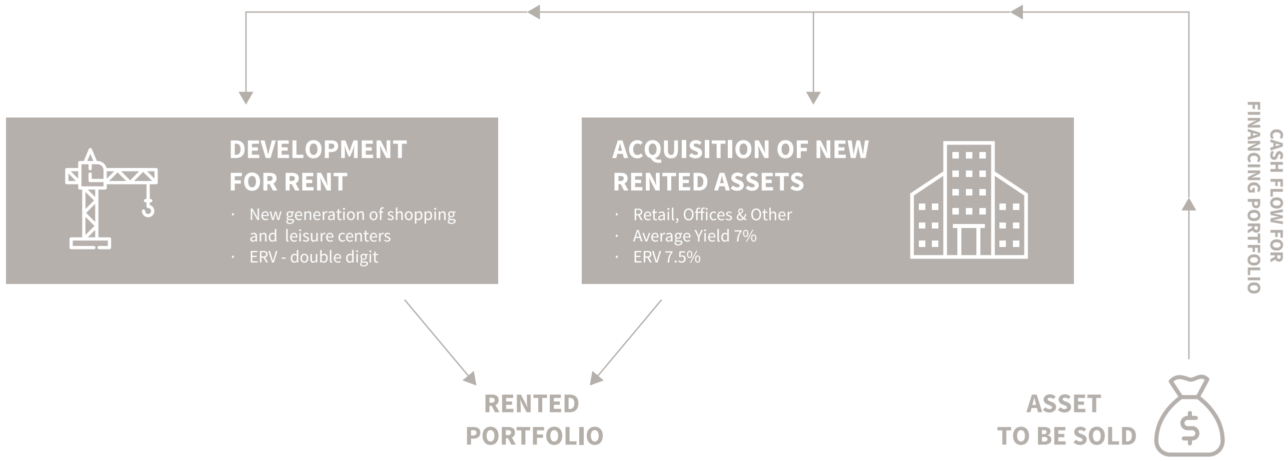


An annex to these financial statements provides further information on investments held directly and indirectly by the Parent Company.

2.4 Strategy and business model

The Aedes strategy aims to create and maintain in the medium to long term a revenue property portfolio for commercial purposes of use, mainly retail and Office purposes, with a sustainable use of debt such as to generate cash flows consistent with the SIIQ/REIT model.

This strategy continues to revolve around divesting non-strategic and non-performing assets and allocating financial resources available in the income-generating revenue and development portfolios, with an "all-round" business model: from planning, to development and revenue generation, with a constant eye not only on creating value for the Company and its shareholders, but also on creating added value for the communities involved.



Additionally, Aedes provides services exclusively to Group companies (asset management, administration and finance). The subsidiary Praga Res S.r.l. performs Project and Construction Management activities, mainly for Group companies, in order to maintain greater control over investments.

2.5 Performance in the Year

RESULTS

The table below shows the reclassification of operating results to provide a clearer picture of the result for the year:

Description (Euro/000)	31/12/2017	31/12/2016	Change
Gross rental revenue	17,387	15,120	2,267
Income from sale of properties	878	(87)	965
Income from sale of non-real estate inventory	1,174	1,129	45
Margin from sale of investments	198	(3)	201
Other revenue	979	3,244	(2,265)
Total Revenue	**20,616**	**19,403**	**1,213**
Net losses from vacancies	(766)	(526)	(240)
IMU, other taxes and insurance on properties	(3,389)	(2,703)	(686)
Opex	(626)	(807)	181
Commissions and fees	(1,322)	(933)	(389)
Other non-rechargeable costs	(923)	(445)	(478)
Total direct external costs	**(7,026)**	**(5,414)**	**(1,612)**
Net Operating Income	**13,590**	**13,989**	**(399)**
Direct personnel expense	(2,767)	(2,176)	(591)
Internal direct capitalized costs on properties	1,556	1,059	497
Total direct costs	**(1,211)**	**(1,117)**	**(94)**
HQ personnel expense	(3,153)	(3,174)	21
Consultancy	(2,910)	(3,152)	242
G&A	(5,531)	(5,759)	228
Internal capitalized costs on non-real estate inventory	1	21	(20)
Total General Expenses	**(11,593)**	**(12,064)**	**471**
EBITDA	**786**	**808**	**(22)**
Fair value adjustment of investment property	20,874	29,773	(8,899)
(Write-down)/reversal of inventory	(1,836)	(771)	(1,065)
Amortization, depreciation, provisions and other impairment losses	(48)	(2,470)	2,422
Income/(charges) from associates	(3,445)	3,009	(6,454)
EBIT (Operating profit)	**16,331**	**30,349**	**(14,018)**
Financial income/(charges)	(6,160)	(3,588)	(2,572)
EBT (Profit before taxes)	**10,171**	**26,761**	**(16,590)**
Taxes/tax charges	(420)	3,071	(3,491)
Profit/(loss) from continuing operations	**9,751**	**29,832**	**(20,081)**
Gains/(losses) after taxes from assets and liabilities held for sale	(375)	382	(757)
Profit/(loss)	**9,376**	**30,214**	**(20,838)**
Result - Minorities	(287)	1,107	(1,394)
Result - Group	**9,663**	**29,107**	**(19,444)**

EBITDA, basically in line with 2016, saw, nonetheless, an increase in revenue and a sharp growth in the recurring component.
2017 closed with a profit of Euro 9.4 million (Euro 9.7 million of which attributable to the owners of the Parent) versus a profit of Euro 30.2 million (Euro 29.1 million of which attributable to the owners of the Parent) in 2016.

The result achieved in 2017 stems from the actions taken by the Group to develop a strategy aimed at the consolidation of a property portfolio typical of a property company, a strategy pursued with determination in 2016 by expanding the property portfolio in order to generate rental revenue, and continued in 2017 by acquiring Retail Park One S.r.l., owner of a retail park covering 27,655 m² of GLA in Serravalle Scrivia (AL), with a 9% entry yield.

Additionally, in keeping with the disposal strategy on non-core assets and investments, on 16th June 2017, a deed was concluded for the disposal of the interests in the subsidiary Golf Club Castello Tolcinasco SSD S.r.l.. The result of the company up to the disposal date and the effects of the disposal have been classified under "Gains/(losses) after taxes from assets and liabilities held for sale". For comparative purposes, the corresponding result of the prior period has also been classified under the item.

The following consolidated and reclassified income statement figures are analyzed by item.

Total revenue

Total revenue amounted to Euro 20.6 million, up by 6% versus the prior year. Consistent with the property company model and the tax regime of SIIQs/REITs, rental revenue increased to 84% of total consolidated revenue versus 78% in the prior year.

Revenue (Euro/000)	31/12/2017	31/12/2016	Change
Gross rental revenue	17,387	15,120	2,267
Income from sale of properties	878	(87)	965
Income from sale of non-real estate inventory	1,174	1,129	45
Margin from sale of investments	198	(3)	201
Other revenue	979	3,244	(2,265)
Total	**20,616**	**19,403**	**1,213**

Income from sale of properties (Euro/000)	31/12/2017	31/12/2016	Change
Revenue from disposal of properties	752	0	752
Gross revenue from sale of real estate inventory	4,802	745	4,057
Costs of sales from real estate inventory	(4,676)	(832)	(3,844)
Income from sale of properties	**878**	**(87)**	**965**

Income from sale of non-real estate inventory (Euro/000)	31/12/2017	31/12/2016	Change
Gross revenue from sale of non-real estate inventory	2,857	2,236	621
Costs of sales from non-real estate inventory	(1,683)	(1,107)	(576)
Income from sale of non-real estate inventory	**1,174**	**1,129**	**45**

Other revenue (Euro/000)	31/12/2017	31/12/2016	Change
Construction Management revenue	10,782	22,486	(11,704)
Construction Management costs	(11,158)	(22,073)	10,915
Margin from provision of Construction Management services	**(376)**	**413**	**(789)**
Project Management revenue	185	597	(412)
Project Management costs	(130)	(522)	392
Margin from provision of Project Management services	**55**	**75**	**(20)**
Sundry revenue	**1,300**	**2,756**	**(1,456)**
Other revenue	**979**	**3,244**	**(2,265)**

Gross rental revenue amounted to Euro 17.4 million versus Euro 15.1 million at 31st December 2016. The +15% increase by Euro 2.3 million is the result of the acquisition of assets and revenue property portfolios made by the Group in 2016 and 2017.
Specifically, the increase is attributable, for Euro 2.2 million, to revenue from the Serravalle Scrivia Retail Park (acquired in May 2017), for Euro 1.5 million, to rental of the property in Via Veneziani 54, Rome (acquired in June 2016), offset, for Euro 1.2 million, against lower revenue from a free-standing property in Milan (vacant since May 2017 and undergoing refurbishment for future leases) and, for Euro 0.4 million, to lower revenue from the property in Trezzano.

The margin from the sale of properties includes (a) proceeds from the sale of investment property of Euro 0.8 million at 31st December 2017 versus zero margins in 2016, and (b) a positive margin of Euro 0.1 million from the sale of properties under current assets versus a negative margin of Euro 0.1 million at 31st December 2016.

The margin from the sale of non-real estate inventory, amounting to Euro 1.2 million, virtually unchanged versus 31st December 2016, refers to the margin generated by the wine-growing business of Società Agricola La Bollina S.r.l. and Bollina S.r.l..

The margin from the sale of investments, amounting to Euro 0.2 million, basically zero in 2016, is attributable to the disposal of the investment held in Roma Development S.r.l..

Other revenue includes the margin from Construction Management services, which amounted to Euro -0.4 million at 31st December 2017 versus Euro +0.4 million in 2016, and the margin from Project Management services, which amounted to Euro 0.1 million at 31st December 2017, virtually unchanged versus 2016.

Sundry revenue amounted to Euro 1.3 million versus Euro 2.8 million in 2016. In 2017, the item included Euro 0.2 million in services provided for “The Market”, in addition to Euro 0.3 million in income from the write-off of a payable to a trade partner. In 2016, the item included contingent assets of approximately Euro 1.6 million.

Direct external costs

Direct costs amounted to Euro 7.0 million at 31st December 2017, increasing by Euro 1.6 million versus Euro 5.4 million at 31st December 2016, attributable to the growth in property assets.

Direct external costs (Euro/000)	31/12/2017	31/12/2016	Change
Net losses from vacancies	(766)	(526)	(240)
IMU, other taxes and insurance on properties	(3,389)	(2,703)	(686)
Opex	(626)	(807)	181
Commissions and fees	(1,322)	(933)	(389)
Other non-rechargeable costs	(923)	(445)	(478)
Total direct external costs	**(7,026)**	**(5,414)**	**(1,612)**

The Euro 1.6 million increase is attributable mainly to higher property tax as a result of the growth in property assets, and to management fees of the Petrarca Fund as a result of the disposal of Aedes Real Estate SGR S.p.A. (now Sator Immobiliare SGR S.p.A.), deconsolidated from the fourth quarter of 2016.

Net Operating Income

Net Operating Income, as a result of the above Total Revenue and Total Direct Costs items, amounted to Euro 13.6 million versus Euro 14.0 million at 31st December 2016.

Net Operating Income (Euro/000)	Property assets	Non-property assets	31/12/2017	Property assets	Non-property assets	31/12/2016	Change
Net Operating Income	12,654	936	13,590	13,097	892	13,989	(399)

Direct costs

The increase in direct personnel expense stems from the higher costs throughout 2017 for the development of the organizational structure from the second half of 2016, as a result of the expansion of the revenue portfolio and pipeline for the development of rented assets.

Direct costs (Euro/000)	31/12/2017	31/12/2016	Change
Direct personnel expense	(2,767)	(2,176)	(591)
Internal direct capitalized costs on properties	1,556	1,059	497
Total direct costs	(1,211)	(1,117)	(94)

General expenses

General expenses amounted to Euro 11.6 million, falling by Euro 0.5 million versus Euro 12.1 million at 31st December 2016.

General expenses (Euro/000)	31/12/2017	31/12/2016	Change
HQ personnel expense	(3,153)	(3,174)	21
Consultancy	(2,910)	(3,152)	242
G&A	(5,531)	(5,759)	228
Internal capitalized costs on non-real estate inventory	1	21	(20)
Total General Expenses	(11,593)	(12,064)	471

EBITDA

EBITDA (Euro/000)	Property assets	Non-property assets	31/12/2017	Property assets	Non-property assets	31/12/2016	Change
EBITDA	502	284	786	731	77	808	(22)

EBITDA, as a result of the items referring to the above Revenue, Direct costs and General expenses, amounted to approximately Euro +0.8 million, in line with the figure reported in 2016.
EBITDA saw, nonetheless, an increase in revenue and a sharp growth in the recurring component.

Fair value adjustment of investment property

In 2017, investment property recorded net fair value adjustments of Euro 20.9 million versus Euro 29.8 million in the prior year (which included in 2016 the revaluation of Euro 18.1 million in the fair value of the Redwood portfolio, and the property in Via Veneziani 54, Rome for Euro 15.8 million). The fair value adjustments in 2017 benefited from the revaluation of the Retail Park of Serravalle (Euro 5.7 million) and of the development area situated in the Municipality of Caselle (Euro 8.3 million), following the signing of the Town-Planning Agreement with the Municipality, and from the progress of the administrative building permit process, in addition to the revaluation of the office buildings in Via Richard, Milan, acquired in the year (Euro 9.6 million).

(Write-down)/Write-back of inventory

The item amounted to Euro -1.8 million at 31st December 2017 (Euro 0.8 million in 2016), down by Euro -1.0 million.

Amortization, depreciation, provisions and impairment losses

The item was basically nil at 31st December 2017 versus Euro 2.5 million at end 2016, decreasing by Euro 2.5 million. It is broken down as follows:

- Euro 0.6 million in amortization and depreciation (Euro 0.7 million in 2016);
- Euro 0.2 million in write-backs on prior-years' write-downs of trade receivables (Euro 0.2 million in write-downs in 2016);
- Euro 0.4 million in releases of provisions for risks and charges (Euro 1.6 million in provisions in 2016, due mainly to the provision for the Fih S.a.g.l. arbitration award).

Income/(Charges) from associates and Joint Ventures

The item at 31st December 2017 amounted to Euro -3.4 million (Euro +3.0 million at 31st December 2016), due mainly to the equity measurement of the Leopardi Fund. The 2016 figure included Euro 4.9 million for the adjustment to market values, in accordance with Group policies, of the property assets of the associate Pragasei S.r.l., owner of the Serravalle Outlet shopping center inaugurated on 3rd November 2016.

EBIT

EBIT came to a positive Euro 16.3 million versus Euro 30.3 million in 2016; the difference is due mainly to the significant revaluations made both on properties and on property investments in 2016.

Financial Income/(Charges)

The item amounted to Euro 6.2 million in charges (Euro 3.6 million in 2016), composed of:

- financial income: Euro +0.8 million (Euro +0.9 million in 2016);
- financial charges: Euro -7.1 million (Euro -4.0 million in 2016); the higher figure is explained by the increase in gross debt from the increase in property assets and the higher spreads on unsecured debt;
- fair value adjustment of derivatives: Euro +0.1 million (Euro -0.5 million in 2016).

Income taxes for the Year

Taxes for the year amounted to Euro -0.4 million (versus Euro +3.1 million in 2016) and consist of:

- current taxes of Euro 0.3 million (Euro 0.1 million in 2016) relating to SIIQ/REIT and SIINQ companies; and
- Euro 0.1 million from the net negative effect of deferred and prepaid taxes (versus the net positive effect of Euro 3.2 million in 2016).

Gains/(losses) after taxes from assets and liabilities held for sale

The item amounted to Euro -0.4 million versus Euro +0.4 million at 31st December 2016. The item refers to the result from discontinuing operations of Golf Club Castello Tolcinasco SSD S.r.l., with effect for accounting purposes as from 1st January 2017.

The item includes, at 31st December 2016, the net result of the subsidiary Golf Club Castello Tolcinasco SSD S.r.l., in addition to the result for the period of the subsidiary Aedes Real Estate SGR S.p.A., classified as an asset held for sale in 2016 and sold in the same year.

FINANCIAL POSITION

The financial position of the Group at 31st December 2017 is summarized as follows:

Description (Euro/000)	31/12/2017	31/12/2016	Change
Fixed capital	485,596	398,367	87,229
Net working capital	46,806	61,727	(14,921)
Invested capital	**532,402**	**460,094**	**72,308**
Equity attributable to the owners of the Parent	313,201	296,408	16,793
Equity attributable to minorities	(385)	6,953	(7,338)
Total equity	**312,816**	**303,361**	**9,455**
Other non-current (assets) and liabilities	**3,857**	**6,115**	**(2,258)**
Non-current payables to banks and other lenders	174,227	113,866	60,361
Current payables to banks and other lenders	64,743	49,362	15,381
Cash and cash equivalents	(23,241)	(12,610)	(10,631)
Total net financial debt	**215,729**	**150,618**	**65,111**
Total funding sources	**532,402**	**460,094**	**72,308**

Fixed capital

The item amounted to Euro 485.6 million versus Euro 398.4 million at 31st December 2016 and is composed mainly of:

- investment property and other tangible fixed assets of Euro 432.4 million versus Euro 344.2 million at 31st December 2016. The change of Euro 88.2 million is attributable mainly to the acquisition of the Serravalle Retail Park and the office towers in Via Richard, Milan, and to investments in properties of Euro 19.7 million and fair value adjustments in the year;
- capital investment in associates and joint ventures of Euro 53.1 million versus Euro 54.0 million at 31st December 2016; the reduction is attributable mainly to the distribution of the share capital of the associate Dante Retail Fund and to adjustments in the period;
- other financial fixed assets of Euro 0.1 million, in line with the figure at 31st December 2016;
- intangible fixed assets basically nil, in line with the figure at 31st December 2016.

Net Working Capital

Net working capital amounted to Euro 46.8 million versus Euro 61.7 million at 31st December 2016, and consists of:

- inventory of Euro 50.2 million versus Euro 56.3 million at 31st December 2016; the change is attributable to the disposal of assets and write-downs in the year;
- trade and other receivables of Euro 21.6 million versus Euro 27.0 million at 31st December 2016. The change is attributable mainly to the collection in 2017 of a tax receivable of Euro 6.4 million, referring to the substitute tax pursuant to Law no. 226/2005 claimed as refund in prior years;
- trade and other payables of Euro 25.0 million versus Euro 21.6 million at year-end 2016.

Invested capital

As a result of the above changes, invested capital increased from Euro 460.1 million at 31st December 2016 to Euro 532.4 million at end 2017. Invested capital is funded by equity of Euro 312.8 million (59%), by net financial debt of Euro 215.7 million (40%), and by other net non-current liabilities of Euro 3.9 million (1%).

Consolidated equity

Consolidated equity amounted to Euro 312.8 million versus Euro 303.4 million at 31st December 2016. The upward change of Euro 9.4 million is attributable, for Euro 9.4 million, to the result of the period, for Euro 1.6 million, to the sale of treasury shares held in portfolio, for Euro 1.7 million, to the purchase of the remaining 35% in the Petrarca Fund and, for Euro 0.1 thousand, to actuarial losses.
This item is composed of Euro 313.2 million from equity attributable to the owners of the Parent (Euro 296.4 million at end 2016) and of Euro -0.4 million to minorities (Euro +7.0 million at end 2016); the reduction is explained mainly by the abovementioned acquisition of the minority interests in the Petrarca Fund.

Other non-current assets and liabilities

The item closed the year at Euro -3.9 million versus Euro -6.1 million at end 2016. It is composed as follows:

- liabilities of Euro 1.1 million from the provision for severance indemnity (Euro 1.0 million in 2016);
- net tax assets of Euro 2.3 million (Euro 2.5 million in assets at end 2016) as the imbalance between deferred tax assets and the provision for deferred taxes;
- liabilities of Euro 5.1 million (Euro 6.0 million at end 2016) relating to provisions for risks, primarily for contractual obligations (Euro 0.3 million versus Euro 0.7 million at end 2016), for tax risks (Euro 2.4 million versus Euro 2.5 million at end 2016), provisions related to the management of property assets (Euro 0.1 million versus Euro 0.2 million at end 2016) and provisions for future liabilities (Euro 2.3 million versus Euro 2.6 million at end 2016);
- assets from net non-current receivables of Euro 0.2 million (Euro 1.2 million in net payables at end 2016);
- net liabilities of Euro 0.2 million from the fair value measurement of derivatives (Euro 0.4 million at end 2016).

Consolidated net financial debt

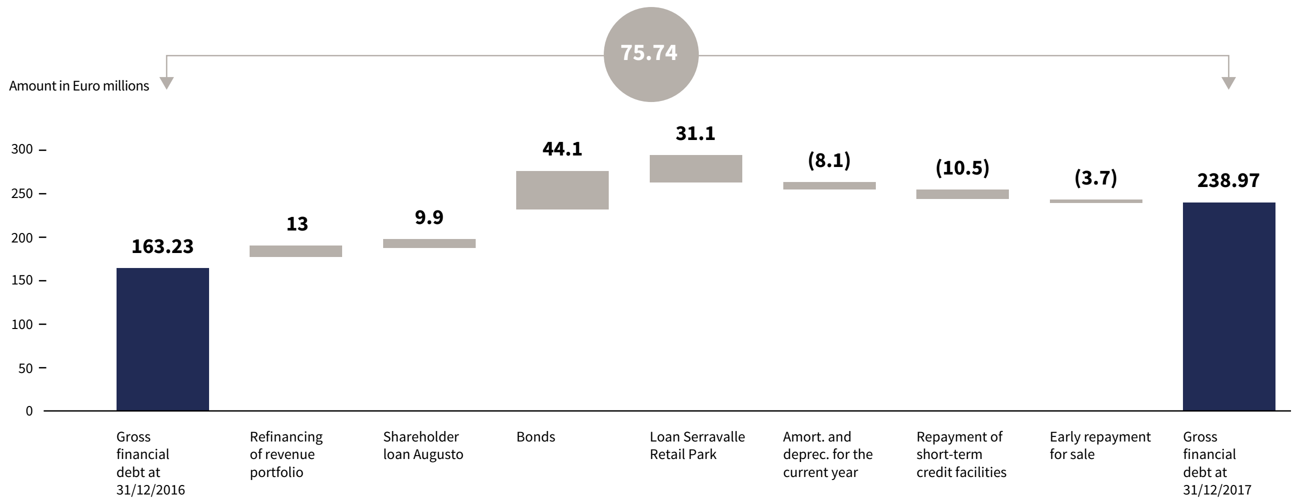
The net financial debt of the Group at 31st December 2017 amounted to Euro 215.7 million versus Euro 150.6 million at 31st December 2016. The change is attributable mainly to the new loan agreements concluded with banks, in addition to the bonds placed in 2017 and the shareholder loan received from Augusto S.p.A..

The net financial debt in 2017 is the result of the difference between gross payables of Euro 238.9 million and bank deposits of Euro 23.2 million, versus gross payables of Euro 163.2 million and bank deposits of Euro 12.6 million at the end of the prior year.

The table below shows the net financial debt of the Group at end 2017 versus the end of the prior year:

	NFP (Euro/000)	31/12/2017	31/12/2016	Change
A	Cash on hand	23,241	12,610	10,631
B	Cash equivalents	0	0	0
C	Securities	0	0	0
D	**Total cash and cash equivalents (A) + (B) + (C)**	**23,241**	**12,610**	**10,631**
E	**Current financial receivables**	**0**	**0**	**0**
F	Current payables to banks	(64,262)	(47,798)	(16,464)
G	Current portion of non-current financial liabilities	(145)	0	(145)
H	Other current financial liabilities	(336)	(1,564)	1,228
I	**Total current financial liabilities (F) + (G) + (H)**	**(64,743)**	**(49,362)**	**(15,381)**
J	**Net current financial debt (I) + (E) + (D)**	**(41,502)**	**(36,752)**	**(4,750)**
K	Non-current payables to banks	(118,990)	(97,107)	(21,883)
L	Bonds issued	(43,992)	0	(43,992)
M	Other non-current financial liabilities	(11,245)	(16,759)	5,514
N	**Non-current net financial debt (K) + (L) + (M)**	**(174,227)**	**(113,866)**	**(60,361)**
O	**Net financial debt (J) + (N)**	**(215,729)**	**(150,618)**	**(65,111)**

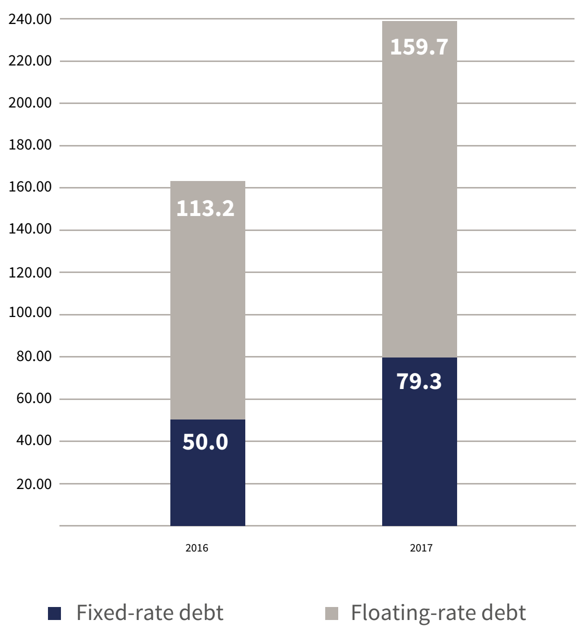
The increase in gross debt is due mainly to the net effect of new loans taken out, and to current amortization and reimbursements for property sales in the period, as explained in the chart below.



Specifically, the effects on the change in the debt are ascribable to:

a) decreases for a total of Euro 22.3 million, attributable to:
- *(i)* repayments of short-term credit facilities of approximately Euro 10.5 million;
- *(ii)* repayments for period amortizations of approximately Euro 8.1 million and
- *(iii)* early repayments for the sale of properties of approximately Euro 3.7 million;

b) increases of Euro 98.1 million, attributable to:
- *(i)* Euro 44.1 million for the issue of two bonds;
- *(ii)* Euro 31.1 million for a new loan taken out secured by a mortgage and by a pledge on interests in Novipraga SIINQ S.p.A. for the refinancing of the Serravalle Retail Park and the financing of the development costs of Phase C;
- *(iii)* Euro 13.0 million for the refinancing of part of the revenue property portfolio; and
- *(iv)* Euro 9.9 million for the new shareholder loan received from Augusto S.p.A..



At 31st December 2017, the percentage of the floating-rate gross debt amounted to 66.8% of the Group's overall financial exposure versus 69.4% of the floating-rate debt at 31st December 2016.
The portion of debt not exposed to interest rate risk is due to the subscription by Aedes in November 2015 of an Interest Rate Collar, with 0% strike rates for floor and 1% for cap, with a notional amount of Euro 50 million and bullet maturity in December 2020.
The purpose of the hedge contract is to reduce the rate risk on the overall debt of the Group.
Additionally, the Company issued a fixed-rate bond worth Euro 29.3 million at year end.

The table below shows the reclassification of the financial debt of the Group by guarantee:

(Euro/000)	2017	2016	Change
Investment property: mortgages	138.1	84.1	54.0
Investment property: leasing	0	16.7	(16.7)
GFP Investment property	**138.1**	**100.9**	**37.3**
Properties under development: mortgages	13.1	9.0	4.1
Properties under development: other loans	8.0	14.6	(6.6)
GFP properties under development	**21.1**	**23.6**	**(2.5)**
GFP Subtotal investments	**159.3**	**124.5**	**34.8**
Inventory: mortgages	21.1	30.4	(9.3)
GFP Subtotal inventory	**21.1**	**30.4**	**(9.3)**
GFP property portfolio	**180.4**	**154.8**	**25.6**
Other bank payables	**2.8**	**6.8**	**(4.0)**
Other payables	**55.7**	**1.6**	**54.1**
Gross financial position	**239.0**	**163.2**	**75.7**

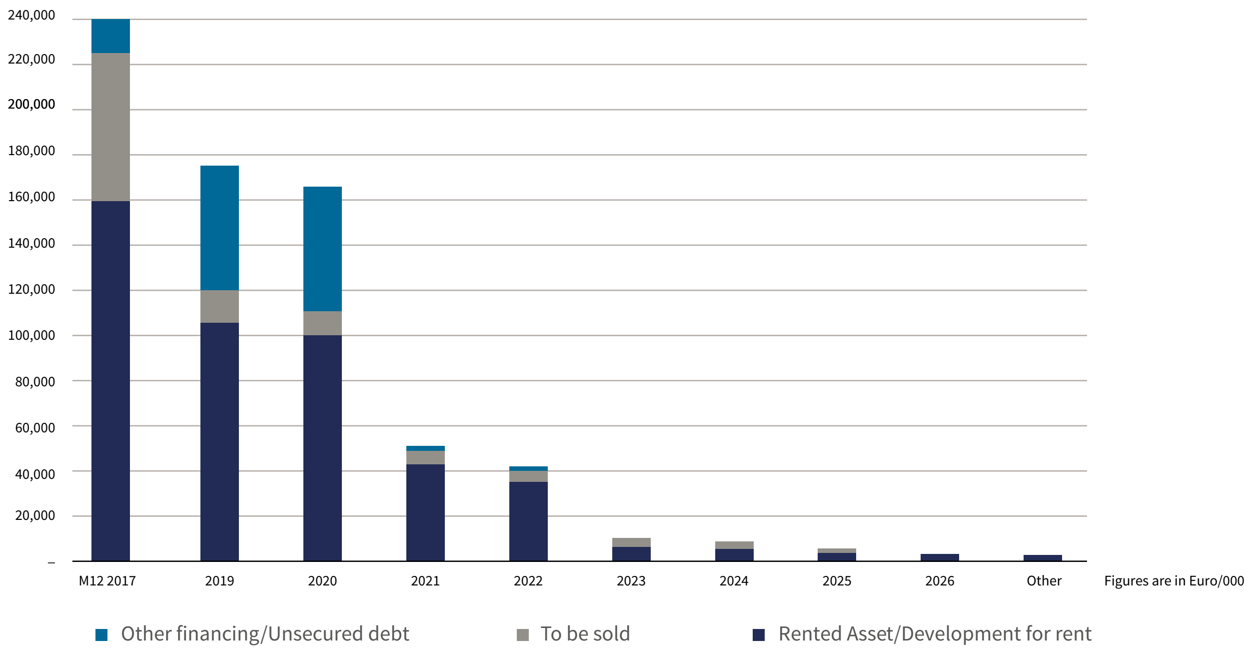
At 31st December 2017, the gross debt has an average duration of 2.63 years.

The short-term financial debt of the Group at 31st December 2017 amounted to Euro 64.7 million versus Euro 49.3 million at 31st December 2016, with a net increase of Euro 15.4 million. Out of the Euro 64.7 million in short-term maturities, approximately Euro 42.5 million refer to the balloon instalment of a loan maturing on 31st December 2018 held by the Petrarca Fund.

At the date of approval of the draft financial statements and the consolidated financial statements, there are no significant events regarding the applicability of the contractual covenants that set limits to the use of financial resources within the existing exposure.

The chart below shows the maturity and repayment plan of financial payables, broken down by nature and type of business of the funded asset.

DURATION



2.6 EPRA Performance Measures

The table below summarizes the main EPRA performance measures (EPM).

	EPRA – performance measure	Definition	2017	2016	Reference
1.	EPRA EARNINGS (Euro/000)	Net adjusted income from operations	(7,569)	(3,935)	this paragraph
2	EPRA NAV (Euro/000)	Net Asset Value, which includes investment property at fair value and excludes fair value of financial instruments	316,957	299,843	this paragraph
3	EPRA NNNAV (Euro/000)	Adjusted EPRA NAV to include fair value of financial instruments and financial payables	316,695	300,118	this paragraph
4.	(I) EPRA NET INITIAL YIELD (%)	Ratio between annualized lease rents, net of non-recurring charges, and gross market value of investment property	4.4%	4.7%	this paragraph
	(II) EPRA 'TOPPED-UP' NIY (%)	Ratio between stabilized lease rents, net of non-recurring charges, and gross market value of investment property	4.5%	5.1%	this paragraph
5.	EPRA VACANCY RATE (%)	Ratio between market value (ERV) of vacant space and market value of the entire portfolio	37.23%	17.81%	this paragraph
6.	EPRA COST RATIO (including costs for vacant properties) (%)	Ratio between operating costs of the company and lease rents	127%	132%	this paragraph
	EPRA COST RATIO (excluding costs for vacant properties) (%)		111%	112%	this paragraph

EPRA EARNINGS

(Euro/000)	31/12/2017	31/12/2016
Earnings per IFRS income statement	**9,663**	**29,107**
Adjustments to calculate EPRA Earnings, exclude:		
Changes in value of investment properties, development properties held for investment and other interests	19,038	29,460
Profits or losses on disposal of investment properties, development properties held for investment and other interests	752	0
Profits or losses on sales of trading properties including impairment charges in respect of trading properties	125	(87)
Changes in fair value of financial instruments and associated close-out costs	137	(507)
Acquisition costs on share deals and non-controlling joint venture interests	0	0
Adjustments (i) to (viii) above in respect of joint ventures (unless already included under proportional consolidation)	(3,389)	4,969
Minorities in respect of the above	569	(793)
EPRA Earnings	**(7,569)**	**(3,935)**
Basic number of shares	319,773,191	316,303,191
EPRA Earnings per Share (EPS)	**(0.024)**	**(0.012)**
Company specific adjustments:		
Provisions for risks	351	(1,602)
Company specific Adjusted Earnings	**(7.920)**	**(2.333)**
Company specific Adjusted EPS	**(0.025)**	**(0.007)**

The diluted EPRA EPS is not meaningful since the outstanding warrants, being out of the money at the reporting date, would have an antidilutive effect. Their calculation was, therefore, deemed unnecessary.

In the item relating to specific adjustments, the Group includes allocations to provisions for risks, considering that they are of a non-recurring nature and do not relate to income components that accrue in the current year.

EPRA NAV (NET ASSET VALUE) AND EPRA NNNAV (TRIPLE NET ASSET VALUE)

(Euro/000)	31/12/2017	31/12/2016
Outstanding shares (*)	319,773,191	316,303,191
EPRA Net Asset Value		
Equity from IFRS	313,201	296,408
NAV		
Includes:		
Revaluation of investment property	0	0
Revaluation of properties under development	15	120
Revaluation of other investments (property investments)	1,584	1,525
Revaluation of inventory	1,919	1,415
Excludes:		
Fair value of derivative financial instruments	238	375
EPRA NAV	**316,957**	**299,843**
EPRA NAV per share	**0.99**	**0.95**
Fair value of derivative financial instruments	(238)	(375)
Fair value of financial debt	(24)	650
EPRA NNNAV	**316,695**	**300,118**
EPRA NNNAV per share	**0.99**	**0.95**

(*) net of treasury shares

The diluted EPRA NAV and EPRA NNNAV are not meaningful since the outstanding warrants, being out of the money at the reporting date, would have an antidilutive effect. Their calculation was, therefore, deemed unnecessary.

"Revaluation of properties under development" includes the difference between the carrying amount (cost) and their fair value.

"Revaluation of other investments (property investments)" includes the difference between the carrying amount (cost) and the fair value of property booked under inventory in the financial statements of associates and joint ventures.

"Revaluation of inventory" includes the difference between the carrying amount (cost) and the fair value.

"Fair value of derivative financial instruments" represents the net value of derivative instruments recognized in the financial statements (liabilities in both 2017 and 2016).

"Fair value of financial debt" is equal to the difference between the book value and its fair value, which is negative in 2017 and positive in 2016.

EPRA NIY (NET INITIAL YIELD) AND EPRA "TOPPED UP" NIY

(Euro/000)	31/12/2017	31/12/2016
EPRA NIY and 'topped-up' NIY		
Investment property – wholly owned	430,139	341,509
Trading property (including share of JVs)	51,466	57,126
Less: developments	(125,419)	(109,659)
Completed property portfolio	**356,186**	**288,976**
Allowance for estimated purchasers' costs	14,247	11,559
Gross up completed property portfolio valuation	**370,433**	**300,535**
Annualised cash passing rental income	19,104	16,871
Property outgoings	(2,777)	(2,732)
Annualised net rents	**16,327**	**14,139**
Add: notional rent expiration of rent free periods or other lease incentives	328	1,145
Topped-up net annualised rent	**16,655**	**15,285**
EPRA NIY	**4.4%**	**4.7%**
EPRA "topped-up" NIY	**4.5%**	**5.1%**

"Notional rent expiration of rent free periods" relates mainly to incentives granted to a number of tenants.

Excluding from "Rented Assets" the properties subject to renovation and the properties "to be sold" intended for disposal:

- EPRA NIY would be 5.8% in 2017 and 5.8% in 2016.
- EPRA "topped up" NIY would be 5.9% in 2017 and 6.3% in 2016.

The information in the above table refers to the consolidated property assets.

EPRA VACANCY RATE

(Euro/000)	31/12/2017	31/12/2016
EPRA Vacancy Rate		
Estimated rental value of vacant space	9,996	3,424
Estimated rental value of the whole portfolio	26,845	19,228
EPRA Vacancy Rate	**37.23%**	**17.81%**

The figures in the table refer solely to the share of the revenue portfolio and are marked significantly by the Petrarca portfolio.
In 2017, the deterioration is explained by the entry of new assets whose vacancy is on average higher than in 2016.

While the entire portfolio in 2016 was eligible to be held for revenue generation and, as a result, the vacancy rate gave a clear picture of the situation, in 2017 the properties subject to renovation should be excluded from the calculation; this would result in a vacancy rate of 14.0%, improving by 21.3% versus the prior year.
It should be noted that the table above takes into account only "Rented Assets", that is, properties held for revenue generation to be kept in the portfolio, excluding properties "to be sold" intended for disposal.

EPRA COST RATIO

(Euro/000)	31/12/2017	31/12/2016
EPRA Cost Ratios		
Includes:		
Administrative/operating expense line per IFRS income statement	(23,966)	(24,130)
Net service charge costs/fees	1,891	1,306
Other operating income/recharges intended to cover overhead expenses less any related profits	232	2,910
EPRA Costs (including direct vacancy costs)	**(21,843)**	**(19,914)**
Direct vacancy costs	(2,777)	(2,976)
EPRA Costs (excluding direct vacancy costs)	**(19,066)**	**(16,938)**
Gross Rental Income less ground rents – per IFRS	17,233	15,105
Gross Rental Income	**17,233**	**15,105**
EPRA Cost Ratio (including direct vacancy costs)	**127%**	**132%**
EPRA Cost Ratio (excluding direct vacancy costs)	**111%**	**112%**

Costs incurred are capitalized on the book value of the property investment, only when they are likely to generate future economic benefits and their cost can be measured reliably. Other maintenance and repair costs are booked in the income statement when incurred. For details, reference should be made to the following table showing property related capex.

PROPERTY PORTFOLIO - COMPLETED ASSETS

Euro/000								
Information on completed investment properties								
Sub-portfolio	**GLA (sqm)**	**Average rent per sqm**	**Annualised net rent**	**ERV**	**Net rental income**	**Fair Value**	**WALT**	**% of rever-sion**
Retail	94,689	93	8,843	9,462	8,008	115,410	7.76	7.00%
Office	96,019	104	9,979	10,904	7,572	185,000	2.74	9.27%
Other uses	5,566	28	156	156	91	4,310	2.91	0.00%
	196,274		**18,978**	**20,522**	**15,671**	**304,720**		

Information on each major completed investment property				
Location	**GLA (sqm)**	**Type of property**	**% of ownership**	**Form of ownership**
Milan Via Agnello	4,406	Office	100%	Whole ownership
Rome Via Veneziani	16,745	Office	100%	Whole ownership
Milan Via San Vigilio	9,793	Office	100%	Whole ownership
Catania Via Etnea	7,935	Retail	100%	Whole ownership
Santa Vittoria D'Alba Roero Center - Phase B	9,113	Retail	100%	Whole ownership
Agrate Brianza Centro dir. “Colleoni” – Palazzo Andromeda	13,592	Office	100%	Whole ownership
Cinisello Balsamo Via Gorky	22,104	Office	100%	Whole ownership
Milan Via Roncaglia	8,214	Office	100%	Whole ownership
Serravalle Retail Park - Phase A+B	27,655	Retail	100%	Whole ownership
Milan Via Richard	16,325	Office	100%	Whole ownership
	135,882			

LIST OF MAIN TENANTS

Top 10 tenants	%
NCTM	18%
UNIEURO	17%
BP PROPERTY MNGT	14%
COIN GROUP	12%
WIND	9%
HUAWEI	9%
CALZATURE PITTARELLO GLG	7%
METRO CASH & CARRY	6%
PEONIA MOBILI	4%
ABBOTT MEDICAL ITALIA	4%

PROPERTY PORTFOLIO UNDER DEVELOPMENT

Euro/000												
		Breakdown of GLA according to regions		Breakdown of GLA according to usage								
Type of property	GLA (sqm)	Italy (Piedmont)	Abroad	Retail	Productive	Enter-tainment	Servi-ces	Office	Cost to date (Euro/000)	Cost to completion (Euro/000)	ERV at comple-tion	% of the deve-lopment which has been let as of 31/12/2017
Retail	177,059	177,059	0	123,300	2,252	17,273	0	34,234	115,405	287,879	33,563	0%
Other	80,214	80,214	0	0	80,214	0	0	0	9,330	35,410	n.a.	0%
	257,273	257,273	0	123,300	82,466	17,273	0	34,234	124,735	323,289		

Information on each major development asset							
			Breakdown of GLA according to usage (sqm)				
Location	GLA (sqm)	Type of property	Retail	Productive	Entertainment	Services	Office
Serravalle Outlet Village - Phase 7	4,149	Retail	3,551	598	0	0	0
Serravalle Retail Park Phase C	18,412	Retail	16,758	1,654	0	0	0
Roero Center - Phase C	6,300	Retail	6,300	0	0	0	0
Caselle Designer Village	145,052	Retail	95,779	0	17,273	0	32,000
Praga Business Park	3,146	Retail	912	0	0	0	2,234
	177,059		123,300	2,252	17,273	0	34,234

The following is the reconciliation between the value of cost to date shown in the table above and the carrying amount of the properties under development:

Cost to date (Euro/000)	124,735
Lots and building capabilities	668
Balance sheet properties under development (Euro/000)	**125,403**

Information on each major development asset							
Location	Cost to date (Euro/000)	Cost to completion (Euro/000)	ERV at completion (Euro)	% of the development which has been let as of 31/12/2017	Expected date of completion	% of ownership	Status
Serravalle Outlet Village - Phase 7	8,300	17,591	2,155	0%	Jun-18	100%	P.d.C. withdrawable
Serravalle Retail Park Phase C	20,725	14,109	n.a.	0%	May-18	100%	Under construction
Roero Center - Phase C	1,750	6,396	756	0%	Jun-18	100%	P.d.C. withdrawable
Caselle Designer Village	77,580	249,284	29,954	0%	Mar-22	100%	Town-planning agreement concluded
Praga Business Park	7,050	500	698	0%	Jun-18	100%	Town-planning agreement concluded
	115,405	**287,879**	**33,563**				

LIKE-FOR-LIKE RENTAL GROWTH

Euro/000					
Like-for-Like rental growth					
Sub-portfolio	**Market value 2017**	**Net Rental Income 2016**	**LfL growth**	**Net Rental Income 2017**	**LfL growth %**
Retail	71,310	5,280	(557)	4,723	-11%
Office	160,300	7,232	340	7,572	5%
Other	4,310	53	38	91	72%
	235,920	**12,565**	**(179)**	**12,386**	**-1%**

The table shows, broadly speaking, that net lease rents were basically steady in 2017.
The difference of Euro 68,800 thousand between market value of the Like-for-Like portfolio (Euro 235,920 thousand) and the total rented portfolio (Euro 304,720 thousand) is attributable to the fair value at 31st December 2017 of the properties purchased in 2017, and refers to the purchase of the Serravalle Retail Park and two office towers in Via Richard, Milan.

CAPEX

Property related capex	Euro/000
Acquisitions	53,511
Development	16,711
Like-for-Like portfolio	2,625
Other	364
Total capital expenditure	**73,211**

The above information refers to the consolidated property assets.

Capital expenditure includes overheads and operating expenses of Euro 1,556 thousand, related almost entirely to Development investments.

Purchase-related investments refer to the purchase of the Serravalle Retail Park (Euro 38,416 thousand) and of the two office towers (Euro 15,095 thousand) in Via Richard, Milan.

Development capex refers mainly to the projects regarding the Serravalle Retail Park, Serravalle Outlet Village, Caselle Designer Center, Lotto 10B and Nuovo Ramo Trasversale.

Investments on the Like-for-Like portfolio refer mainly to the property in Via Gorky, Cinisello Balsamo.

Other investments refer to properties held for sale and classified under Inventory, relating to improvements to the properties held in portfolio.

2.7 Glossary of terms and alternative performance measures used

This document, in addition to the statements and conventional financial measures under IFRS, presents a number of reclassified statements and various alternative performance measures to allow for a better measurement of the operating and financial performance of the Group. These statements and measures should not be considered as a substitute of those required by IFRS. Specifically, the alternative measures used include:

Cost of sales
Equal to the consolidated carrying amount of inventory at the time of their sale.

NOI (Net Operating Income)
Equal to EBITDA gross of indirect costs. The measure's purpose is to present a situation of operating profitability before indirect and overhead costs.

EBITDA (Earnings before interest, taxes, depreciation & amortization)
Equal to the Operating Result (EBIT) before depreciation, amortization, impairment, fair value adjustment of investment property, provisions for risks, and income and charges from associates and joint ventures, as well as "restructuring income/charges". The measure's purpose is to present a recurring situation of operating profitability.

EBIT (Earnings before interest & taxes)
Equal to the Operating Result net of financial charges capitalized under inventory.
The measure can be also calculated net of non-recurring items and, in this case, specific explanations are included.

Fixed Capital
Includes the following items:
- Investment property
- Other tangible fixed assets (plant, equipment, other assets, fixed assets in progress)
- Goodwill and other intangible fixed assets
- Investments in companies measured at equity
- Available-for-sale financial assets
- Financial receivables (non-current portion)

Net Working Capital
Equal to the algebraic sum of:
- Trade and other receivables (current portion): net receivables from clients, receivables from subsidiaries and associates, receivables from others, tax receivables, accrued income and prepaid expenses
- Inventory (land, property initiatives in progress and advance payments, properties)
- Held-to-maturity financial assets
- Trade payables (current portion)
- Tax payables

GAV (Gross Asset Value)
Equal to the total value of property assets calculated at current market values.

Gearing Ratio
The ratio measures the impact of borrowed capital on a company's equity. It is represented by the ratio between financial debt and equity.

NAV (Net Asset Value)
Equal to the difference between the total value of assets calculated at current market values and the total value of liabilities.

Property NAV (Net Asset Value)
Equal to the difference between the total value of property assets calculated at current market values and the total value of financial liabilities allocated to properties.

Gross Financial Position (GFP or gross financial debt)
Equal to the algebraic sum of:
- Current financial liabilities
- Non-current financial debt

Net Financial Position (NFP or net financial debt)
Equal to the Gross Financial Position net of:
- Liquidity, or cash (cash on hand and term deposits), cash equivalents and securities
- Current financial receivables

EPRA Performance Measures
Reference is made to paragraph 2.6 "EPRA Performance Measures" for the definition of the measures used.

The table below reconciles revenue and costs presented in the Directors' Report on Operations and the figures shown in the financial statements.

Total revenue stated in the Report (Euro/000)	**20,616**
Revenue from chargebacks to tenants	1,937
Construction Management costs	11,158
Project Management costs	130
Cost of sales from property and non-real estate inventory	6,359
Total revenue from sales and other revenue stated in the financial statements	**40,200**

Total costs stated in the Report (Euro/000)	**(19,830)**
Revenue from chargebacks to tenants	(1,936)
Construction Management costs	(11,158)
Project Management costs	(130)
Capitalized costs for purchases on stock	(2,024)
Total costs stated in the financial statements	**(35,078)**

Revenue from chargebacks to tenants is shown in the Directors' Report on Operations as a reduction of "Net losses from vacancies", whereas in the notes to the consolidated financial statements it is shown under "Revenue from sales and services".

Regarding Project and Construction Management costs, it should be noted that the Directors' Report on Operations shows revenue net of direct costs, while in the notes, the costs are shown under "Costs for raw materials and services".

Regarding the cost of inventory sold, it should be noted that the Directors' Report on Operations shows revenue net of the cost of sales, while in the notes, the costs are shown under "Change in inventory".

2.8 Actual figures versus the Plan

The result of operations and the balance sheet figures for 2017 are in line with the expectations contained in the 2014-2019 Business Plan ("**Plan**") approved by the Aedes Board of Directors on 27th May 2014 and subsequently amended, most recently, on 1st December 2014.

Income Statement

The income statement at 31st December 2017 shows a positive EBIT of approximately Euro 16.3 million, while the Plan had forecast a result ranging between Euro 40 million and Euro 45 million. The EBIT gap is, however, partly offset by the additional income statement components, regarding specifically lower financial charges of Euro 6.2 million at year-end versus Euro 12.3 million from the Plan, and differences in the taxes component, at Euro -0.4 million at end 2017 versus a forecast Euro -5.6 million from the Plan. The Net Result, taking also account of "Profit/(Loss) after taxes on assets and liabilities held for sale", amounting to Euro 0.4 million, amounts to a positive figure of Euro 9.4 million at end 2017, down by Euro 17.1 million versus Euro 26.5 million as forecast by the Plan. In the three years 2015-2017, the total profit forecast by the Plan and the sensitivity analyses was between Euro 30 million and Euro 60 million. Actual results in the same period were Euro 45.7 million, in line with the range given.

Balance sheet

As for the balance sheet, the Plan had forecast total liabilities ranging between Euro 250 million and Euro 270 million; the final figure for 2017 shows a total of Euro 274.5 million, in line with expectations.

The net financial position at 31st December 2017 amounts to approximately Euro -215.7 million versus Euro -213.7 million as forecast by the Plan. The negative difference of approximately Euro 2.0 million is basically in line with expectations.

Lastly, equity stands at Euro 312.8 million, therefore within the range from Euro 300 million and Euro 330 million forecast by the Plan.

With the results at 31st December 2017, the Company has achieved the objectives of the Plan, as was the case for all previous year ends from 31st December 2014.

Taking account of the switch to SIIQ/REIT regime, and in order to expedite the fulfilment of the property company status, on 2nd August 2017, the Board of Directors approved the update of the guidelines of the Business Plan, as disclosed to the market on 28th September 2016. The guidelines indicate different scenarios of the 2018-2023 Business Plan; the Chief Executive Officer and the Chairman have been authorized to assess their actual feasibility on the markets.

Drivers:
In the time span of the 2018-2023 Business Plan scenarios, the Group seeks to continue the expansion and consolidation of a "commercial" portfolio by focusing on new generation retail and office assets, with the aim of maintaining, in the medium and long term, a property portfolio capable of generating recurring cash flows typical of the SIIQ/REIT model, with yields above the industry average.
The Group will continue to acquire existing rented assets and property portfolios, including through contributions in kind, located mainly in North and Central Italy, and to develop a new generation of shopping and leisure centers through the pipeline of projects already in the portfolio. Additionally, the Group will continue to dispose of assets deemed no longer strategic, and will assess taking further steps to strengthen its capital structure.

Targets:
- Financial balance from leasing in 2018
- 2023 Property GAV of approximately Euro 1.6 billion
- Occupancy rate >95%
- LTV equal to approximately 50%

The occurrence of the assumptions underlying the 2018-2023 Business Plan scenarios, hence their full or partial fulfilment, will also depend, however, to a great extent on factors beyond the control of the Company - the degree of uncertainty of which increases as the time span of forecasts widens - including the economic cycle, market trends and, specifically, the property market.

2.9 Analysis of the financial performance of the Parent Company Aedes SIIQ S.p.A.

The Parent Company, Aedes SIIQ S.p.A., closed 2017 with a profit of Euro 3.2 million, down by Euro 14.1 million versus Euro 17.3 million at 31st December 2016.
In 2017, the investment property held by Aedes SIIQ S.p.A. reported net fair value adjustments of Euro 14.6 million, referring mainly to the revaluation of the office buildings in Via Richard, Milan, versus Euro 32.6 million in the prior year, which included the revaluation of the fair value of the Redwood portfolio and of the property in Via Veneziani 54, Rome.

Company equity stands at Euro 289.9 million versus Euro 285.0 million at end 2016. The change is attributable mainly to profit in 2017, in addition to the sale of treasury shares held in portfolio.

The table below breaks down net financial debt of the Parent at end 2017 versus the end of the prior year:

NFP (Euro/000)		31/12/2017	31/12/2016
A	Cash on hand	14,312	3,849
B	Cash equivalents	0	0
C	Securities	0	0
D	**Total cash and cash equivalents (A) + (B) + (C)**	**14,312**	**3,849**
E	**Current financial receivables**	**0**	**0**
F	Current payables to banks	(4,171)	(25,929)
G	Current portion of non-current financial liabilities	(145)	0
H	Other current financial liabilities	(86)	(1,314)
I	**Total current financial liabilities (F) + (G) + (H)**	**(4,402)**	**(27,243)**
J	**Net current financial debt (I) + (E) + (D)**	**9,910**	**(23,394)**
K	Non-current payables to banks	(69,552)	(24,790)
L	Bonds issued	(43,992)	0
M	Other non-current financial liabilities	(9,852)	(15,413)
N	**Non-current net financial debt (K) + (L) + (M)**	**(123,396)**	**(40,203)**
O	**Net financial debt (J) + (N)**	**(113,486)**	**(63,597)**

2.10 Significant events

MARCH 2017
Transactions in the year

On **30th March 2017**, a town-planning agreement was concluded with the Municipality of Caselle for the development of the Turin-Caselle Torinese area held through the 100% owned subsidiary Satac SIINQ S.p.A..
Covering approximately 300,000 m², Aedes SIIQ will develop an Open Mall of over 113,000 m² of GLA in the area, boasting a functional mix of Retail and Entertainment, in line with the most innovative international concepts successfully opened abroad.
The conclusion of the town-planning agreement marks a major step forward in the enhancement of the investment and in the marketing of the spaces. The construction permits are expected by spring 2018.

APRIL 2017
Transactions in the year

On **11th April 2017**, a loan agreement was concluded with the Milan branch of ING Bank N.V. and with Unicredit S.p.A. for a total of Euro 56 million on an owned portfolio worth approximately Euro 111 million.
The loan is granted in two tranches of Euro 52 million and Euro 4 million: approximately Euro 39 million drawn down to repay existing loans and to cover the costs of the transaction; approximately Euro 17 million to finance the renovation of guarantee assets and for new investment property.
The loan has an approximately 50% LTV and a 5-year term, which increases the average maturity of the Aedes Group's debt by approximately one year.

On **12th April 2017**, Aedes SIIQ S.p.A. concluded an agreement with professional investors on the issue of a non-convertible bond of Euro 15 million, finalized on 20th April 2017 and fully subscribed at 31st December 2017.
The bond has an 18-month maturity, with the possibility of extending the loan for a further 18 months, at a 3-month Euribor rate plus a 5% spread.

On **20th April 2017** a shareholder loan agreement of Euro 10 million was concluded with the controlling shareholder Augusto S.p.A.; the loan expires on 31st October 2018, with the possibility of extending the loan for a further 18 months, at a 3-month Euribor rate plus a 5% spread.

APRIL 2017
Company events in the year

On **27th April 2017** the Shareholders' Meeting of Aedes SIIQ S.p.A. approved by majority the Parent Company's financial statements and presented the consolidated financial statements of the Aedes SIIQ Group at 31st December 2016.
The Shareholders' Meeting authorized the Board of Directors to purchase and dispose of treasury shares, pursuant to art. 2357 and 2357-ter of the Italian Civil Code, to art. 132 of the TUF, and to art. 144-bis of the Regulations approved by Consob through resolution 11971/1999 as subsequently amended and supplemented.

MAY 2017
Transactions in the year

On **23rd May 2017** Aedes SIIQ S.p.A. concluded an agreement with Herald Level 2 Lux Holding Sarl on the purchase of 100% of Retail Park One S.r.l., owner of the Serravalle Retail Park, for a price of Euro 39.1 million.
The acquisition was made through a loan of Euro 27 million - granted by a pool of banks - and for the residual amount through financial resources held by Aedes SIIQ.
The acquisition of the Serravalle Retail Park, covering 27,655 m^2 of GLA, will produce commercial and cost synergies, with the development currently underway of 18,279 m^2 of GLA, already owned by Aedes SIIQ, the first phase of which is scheduled to open in spring 2018. Once completed, Aedes SIIQ will own the major Retail Park in Northern Italy with a total GLA of 45,934 m^2.

JUNE 2017
Transactions in the year

On **21st June 2017**, the Board of Directors of Aedes SIIQ S.p.A. resolved to renew the programme to provide liquidity support to the Aedes SIIQ share until 31st December 2017, appointing INTERMONTE SIM S.p.A. as Liquidity Provider. Additionally, the Board of Directors appointed Alessia Farina - current Head of Administration of Aedes SIIQ - as Financial Reporting Manager.

JULY 2017
Company events in the year

On **20th July 2017** a deed was concluded for the merger by incorporation of Praga Service Real Estate into Praga Construction S.r.l. (now Praga Res S.r.l.), effective as from 1st August 2017.

AUGUST 2017
Company events in the year

On **3rd August 2017,** the deed of merger by incorporation of Cascina Praga SIINQ S.p.A. and Redwood S.r.l. into Aedes SIIQ S.p.A. was entered in the Company Register.

SEPTEMBER 2017
Transactions in the year

On **12th September 2017** BG Asset Management S.A., as Leading Sponsor, together with Dea Holding S.r.l. and VLG Capital S.r.l., concluded an agreement for the inclusion of Aedes SIIQ, with a 40% share and for an initial investment totaling approximately Euro 5.6 million, in the capital of the companies involved in "The Market". The project will cover a total retail space of at least 25,000 m^2 of GLA. The development deadline is scheduled by 2020. Specifically, under the agreements, which include, inter alia, a call option granted to Aedes for the purchase of the entire project, exercisable in 2022 at market value, the Aedes Group will handle the project, construction and asset management aspects, while the promoters will focus on marketing and launch of the center.

SEPTEMBER 2017
Company events in the year

On **27th September 2017** the Shareholders' Meetings of Retail Park One S.r.l. and Novipraga SIINQ S.p.A. approved the merger by incorporation of Retail Park One S.r.l. into Novipraga SIINQ S.p.A.. The merger deed was entered in the Company Register on 27th December 2017. Legally effective as of 31st December 2017. For accounting and tax purposes, the transactions of Retail Park One S.r.l. have being recorded in the financial statements of the incorporating entity Novipraga SIINQ S.p.A., effective as of 1st October 2017.

OCTOBER 2017
Transactions in the year

On **25th October 2017**, Aedes SIIQ S.p.A., BG Asset Management S.A. (Borletti Group), Dea Holding S.r.l. and VLG Capital S.r.l. signed the closing of the investment agreements on "The Market San Marino", following the agreements concluded on 12th September 2017.
Specifically, Aedes subscribed the share capital increases it was reserved for a total of Euro 2.7 million, for the acquisition of a 40% share in the capital of the company appointed to act as General Partner of the project.

NOVEMBER 2017
Transactions in the year

On **28th November 2017** Aedes SIIQ S.p.A. signed the preliminary contract for the purchase from the Obelisco Real-Estate Fund, managed by InvestiRE SGR S.p.A., of two office towers located in Via Richard, Milan.
The two properties, Torre C3 and Torre E5, cover a total area of approximately 15,000 m² and will be completely renovated.
The overall investment – including both the purchase price and capex for renovations – will be approximately Euro 35 million, with rent upon completion expected to total Euro 3.5 million. The investment was finalized on **28th December 2017**.

DECEMBER 2017
Transactions in the year

On **6th December 2017**, a further investment agreement was concluded with BG Asset Management S.A. (Borletti Group), Dea Holding S.r.l., VLG Capital S.r.l. and Yesgo SARL, on the entire equity commitment of the initiative, with an investment for Aedes of Euro 23.6 million (of which Euro 2.7 million already paid in 2017 for its 40% interest), with the option for Aedes to review part of the commitment.

On **18th December 2017**, the "Aedes SIIQ S.P.A. 5% 2017 - 2019" bond issued on 20th December 2017 was successfully placed on the Extramot-PRO market; its characteristics are the following:

- Total nominal value: Euro 30 million
- Unit value of each bond Euro 50,000
- Maturity: 18 months extendable for a further 18 months at the discretion of the issuer
- Fixed gross half-year coupon of 5% for the first 18 months and, if extended, of 5.5% for the following 18 months.

The issue attracted the interest of a significant pool of professional investors, confirming their confidence in the Group's growth strategy.

DECEMBER 2017
Transactions in the year

On **18th December 2017**, Aedes SIIQ S.p.A. concluded an agreement with UniCredit S.p.A. to take out a mortgage loan of Euro 45.1 million to refinance Phase A and B of the Serravalle Retail Park for Euro 32 million, and to finance the development of Phase C for approximately Euro 13.1 million.
The loan will repay the bridge loan granted by a pool of banks upon closing of the purchase of Phase A and B of the Serravalle Retail Park for Euro 27 million, as well as a short-term loan of Euro 4 million on Phase C of the Serravalle Retail Park development project.

DECEMBER 2017
Transactions in the year

The loan is divided into two tranches: the first, of Euro 32 million, was granted on **19th December 2017**; the second tranche will be granted in 2018 for a total of Euro 13.1 million. The loan has a 5-year term at a rate equal to the 6-month Euribor plus 2.75% and as such will improve the average duration of the Aedes Group's debt.
The Company has also underwritten the remaining Euro 5 million of the bond issued in April 2017.

On **21st December 2017**, Aedes SIIQ S.p.A. completed the purchase of the remaining 35% in the Petrarca Fund, with the transfer of the interests held by IFM Italy Office Fund GmbH & Co. KG (20%) and by Ivg Logistics Holding S.A. (15%) to Aedes SIIQ.
As a result, Aedes SIIQ comes to own 100% of the Petrarca Fund, which owns 5 office properties in Milan and the Milanese suburbs, one of which is currently in the process of sale to third parties. The consideration for the purchase of the interests, equal to Euro 1.65 million, was fully paid.

EVENTS AFTER YEAR END

On **28th February 2018**, in line with a framework agreement concluded in December 2017, Aedes SIIQ signed the lease contract for the entire tower located in Viale Richard 3, Milan, with WPP Marketing Communications (Italy) S.r.l., a company of the WPP Group – a leading international communications corporation whose parent WPP PLC is listed on the NYSE. The lease will have a 9-year term, renewable for a further 6 years, with an annual rent of Euro 1.8 million.

2.11 Property portfolio

PROPERTY MARKET TREND[1]

Economic outlook - Italy

Growth prospects in the Euro area are positive, with GDP growing faster in the third quarter than in the second. Inflation remained at 1.5% in September. In early 2018, the ECB will have decisions to make on monetary policy instruments, to ensure a stable return to inflation at levels below the prior quarter but closer to 2%. Domestic demand is the main driver of increased production.

Employment levels continue to improve. The most recent data on the Italian economy point to an increase of approximately 0.4% in the GDP growth rate in the third quarter versus the prior quarter. Activity continues to be sustained by domestic demand and household spending is still growing, albeit at a slower pace than in the prior quarter. Total GDP growth for 2017 was 1.6% and forecasts for 2018 continue to improve, with expected growth of 1.4%.

The composite index of business confidence is high across almost all business sectors. Both the manufacturing and construction sectors returned to growth in October, after a hiatus in September.

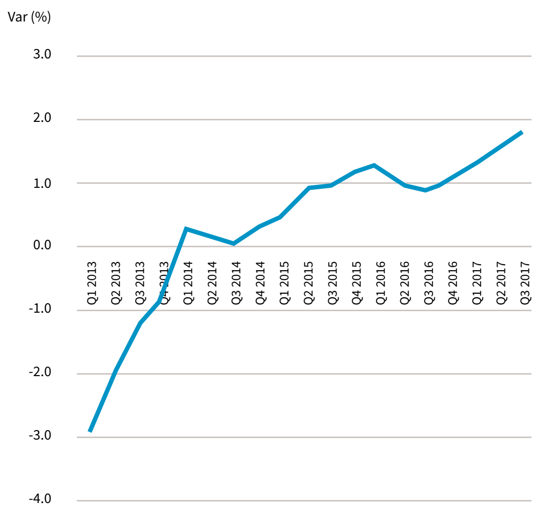
The labour market situation remains positive. In the third quarter, the employment rate increased by approximately 2% versus the prior quarter. The overall unemployment rate remained unchanged at 11.2%, while the youth unemployment rate decreased to 35%.

Retail sales remained stable in 2017 versus last year. After a contraction in sales at the beginning of the year, there was a turnaround in April-May, leading to positive figures after the summer holidays. Year-end forecasts are for overall stability on 2016 figures.

This was partly driven by progressive growth in the food & beverage sector, which remains a footfall driver in both town centers and shopping centers. Further proof of the ongoing economic recovery is the good performance of the services sector, where revenue has historically been the most volatile and sensitive to periods of crisis and growth.

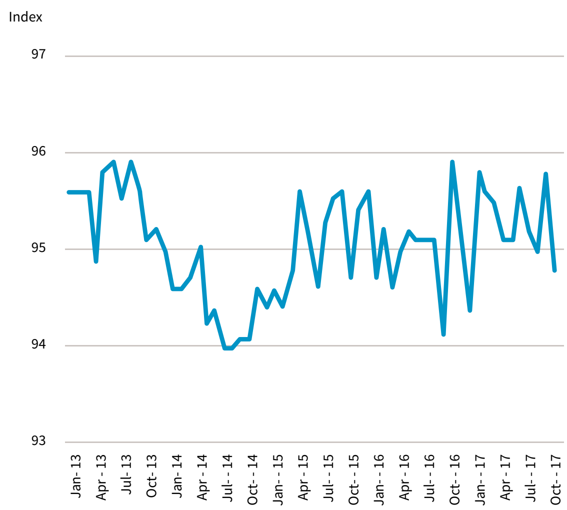
Forecasts for 2018 are positive, although there is lingering political uncertainty linked to the forthcoming general election. However the risk of excessive volatility seems minimal.

EVOLUTION OF ITALIAN GDP



Source: CBRE Research, 4Q17

ITALY RETAIL SALES INDEX



Source: CBRE Research, 4Q17

[1] Sources: CBRE; data source of the Company.

Investment outlook - Italy

The Italian economy has finally clicked into gear and enters 2018 with solid and improving fundamentals. This is reflected in the sentiment of property investors, interviewed by CBRE Italia in December 2017 in its traditional Survey on Investment Intentions in Italy: 64% of the sample interviewed said they believed that the recovery would strengthen in 2018, despite the upcoming general election.

Property investment volumes hit a new record in 2017, continuing a positive cycle that started in 2013. More than Euro 11 billion was invested in the sector – up by 23% versus 2016. The market is changing as is the distribution of investments by sector, due partly to the disruptive impact of technology. The office sector remains stable (36% of total investment volume), retail is falling (21%), logistics is growing (11%) and hotels are also seeing increased investment (12%).

A comparison of the average annual shares of investment in the retail and logistics sectors in the two periods 2005-2015 and 2016-2017 shows that the former's share of investment has gone from 40% to 25% and the latter's from 5% to 10%. The dynamics of the various segments that make up the retail sector are certainly changing. For example, investment in the high street exceeded investment in shopping centers for the first time in 2017, accounting for half of retail investments. However, this is not indicative of an unescapable crisis in the sector, but is more a reflection of a period of significant change in it, which will take time to be absorbed.

Although the market is about to enter the downward phase of the cycle, after 5 years of progressive growth, the foundations are in place to ensure that 2018 could be another year of strong investment activity in Italy. This is because despite record volumes, the Italian property investment market remains below potential vis-à-vis its size. Indeed, Italian property investment accounts for only 4% of European volumes, while Italy's economy as a whole accounts for approximately 12% of total European GDP and consumption.

Consolidation of the property investment sector in Italy

2017 was a strong year for the Italian property sector, with investments of Euro 11.4 billion – up by 23% versus 2016 – confirming the ongoing consolidation. It is becoming a "major" market in spite of adversities and thanks to increasing globalization of property trends and capital flows. The prolonged period of low interest rates has prompted pension funds and institutional investors in general (insurers and sovereign funds) to seek attractive returns. As a result, they have increasingly begun to include property in their investment and portfolio diversification strategies. During 2017, investment in Italy by local institutional investors (some insurance companies and pension funds) and foreign investors (French, in particular) was up versus 2016, reaching at least Euro 2.5 billion – 22% of the total volume.

This trend is set to continue in 2018, alongside growth in opportunistic and value-add investments, meeting the demand for higher returns.

The survey showed that asset pricing is becoming one of the main obstacles for potential investors in Italy: 16% said it was a barrier, second only to the 25% who said that asset availability would once again be the main hindrance to investing in 2018. This will act as further encouragement for investors to move higher up the risk curve in 2018. Further proof of this trend is the return of developments, albeit selective, in investors' crosshairs.

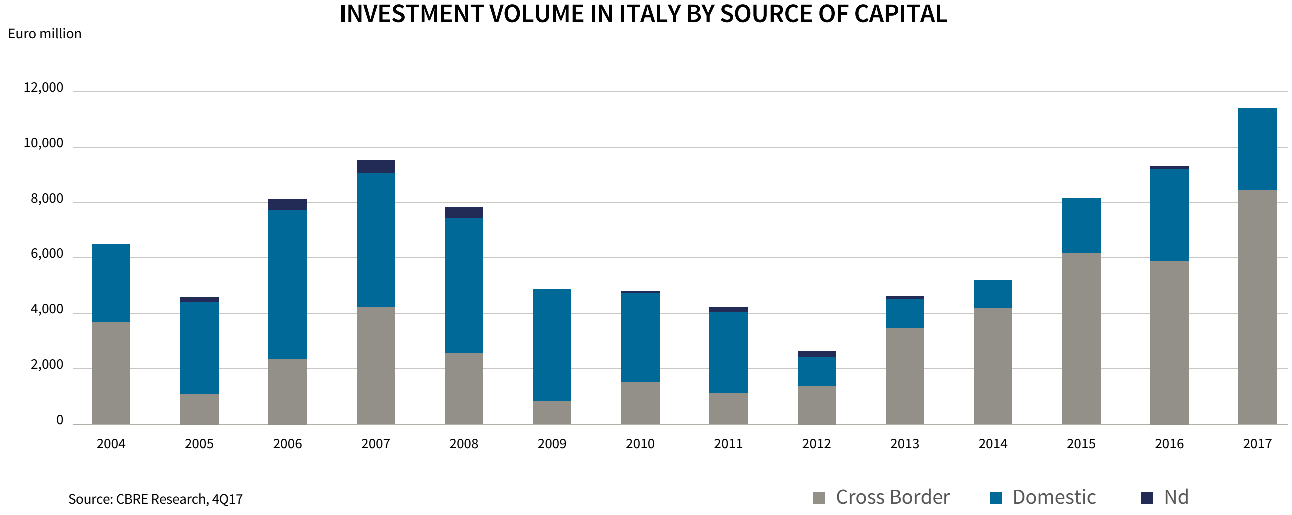
In Italy, Milan remains the main market where investors are looking to invest. However the lack of product is leading them to lock their eyes on other markets as well. Compared to last year, interest is growing in several secondary cities, such as Turin in northern Italy and Naples in southern Italy, while interest in Florence and Venice remains stable. Since it is increasingly difficult to find good opportunities with favourable returns, especially in major cities, 2018 will see a continuation of the trend of creating partnerships with local developers and/or operators able to extract value from assets.

The globalization of the investment industry will continue in 2018. Global capital markets have become increasingly interconnected and this is becoming more and more clear in the Italian property market as well. In fact, in 2017 foreign capital accounted for just over 70% of the capital invested in Italy, totaling approximately Euro 5 billion. These investors will continue to be the main driver of investments in 2018.

North American investors were particularly active in Italy again in 2017, accounting for approximately 25% of invested capital. The share of Asian capital increased to approximately 11% in 2017, reflecting indirect investment initiatives and/or pan-European agreements to acquire major asset platforms, especially in the logistics sector. In particular, the majority of the billion euro of Asian capital invested in Italy was made up of CIC's acquisition of the Logicor logistics platform and the successful IPO by Cromwell, at the second attempt, of a portfolio owned by Cerberus on the Singapore stock exchange.

These mega-deals are part of a broader phase of consolidation, which transcends the property sector and confirm the maturity and consolidation of the cycle. In 2017, M&A activity in Europe was very strong; 2018 promises to be just as dynamic on this front. Worth noting among the major deals that will affect Italy in the coming years are the acquisition of Triuva by Patrizia and the merger between Unibail-Rodamco and Westfield. This will mark the entry to Italy of two leading international operators, which are certain to contribute to further growth in the Italian market.

INVESTMENT VOLUME IN ITALY BY SOURCE OF CAPITAL



Source: CBRE Research, 4Q17

Property yields

European long-term interest rates are expected to start rising in 2018 and 2019, until an economic slowdown forecast for late 2019/early 2020 results in a renewed decline in long-term interest rates. There are two main ways that interest rates have an impact on the value of properties: the relative value of the property compared to other financial products such as government bonds, and the cost of debt, which if it rises could reduce the accessibility of property purchases.

Yields on 10-year government bonds are still at historically low levels, even in Italy, despite slight increases associated with rising volatility. The spread compared to property yields currently varies from 80 bps for high street prime, to 130 bps for prime offices and 355 bps for prime logistics. Strong competition for prime products could result in a further slight compression of returns, especially for logistics and the high street. However, it is more likely that 2018 will be stable. The volatility that could be generated as the election approaches could create upward pressure on long-term bonds, with a gradual reduction in the property spread. In 2019, though, growth in interest rates could drive up property returns, even if the high spread created over the years by expansive monetary policies will dampen the impact. It is important to stress that these returns relate to the prime segment of the market. Looking at secondary market returns, the trend is somewhat different and the outlook may be different. Indeed, investors' growing interest in opportunities outside traditional markets and the greater propensity to climb the risk curve – together with a general improvement in the economy – could contribute to a reduction in the gap between primary and secondary yields during 2018.

Retail - Italy

With approximately 50,000 m² of newly-completed GLA across two projects, the fourth quarter of 2017 capped another positive year for developments.

The most eagerly awaited opening was City-Life in Milan (32,000 m²), followed by the I Viali shopping park in Turin (22,500 m² of GLA). Expansion of existing shopping centers continued, totaling approximately 30,000 m² of GLA in the quarter across the Metauro and Universo shopping centers in Pesaro and Teramo, respectively. As a result, 2017 ended with approximately 245,000 m² of new GLA completed, of which 50% in shopping centers, plus 70,000 m² of expansions.

Volumes under construction with expected delivery in 2018/2019 are in line with those of 2016 and 2017. Retailer demand remained solid throughout the year. Brands not yet present in Italy were still opening new sales outlets in the fourth quarter, with the launch of City-Life in Milan providing a significant entryway for some, including: Habitat, Huawai and DM Drogerie.

Other significant new entries to Italy during the year included: Wagamama, Under Armour and Asics. The high street remained the growth segment in the retail sector, as shown by continuously rising rents also in the fourth quarter, both in Rome and in Milan.

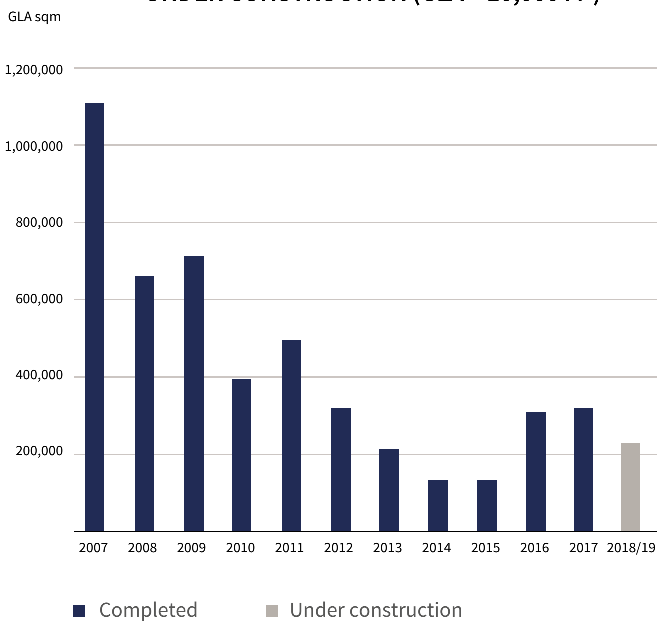
Business was up in the last quarter of the year versus the previous months, with just over Euro 1 billion invested in the retail sector, marking exponential growth on the prior quarter.

The volume of investments in the retail sector in the full year amounted to Euro 2.4 billion, which was lower than the record result of 2016 (approximately -8%), but still 20% higher than the ten-year average.

For the first time, the high street accounts for almost 50% of the total volume for the year, confirming strong interest among core investors looking for "safe" investments. In turn, this is making the market increasingly liquid and institution-focused. Investment volumes in shopping centers has slowed, reflecting a contraction in demand for investment in this asset class. This is due mainly to the warped perception of some investors – mainly American – caused by their domestic experience, which does not match reality in European and Italy.

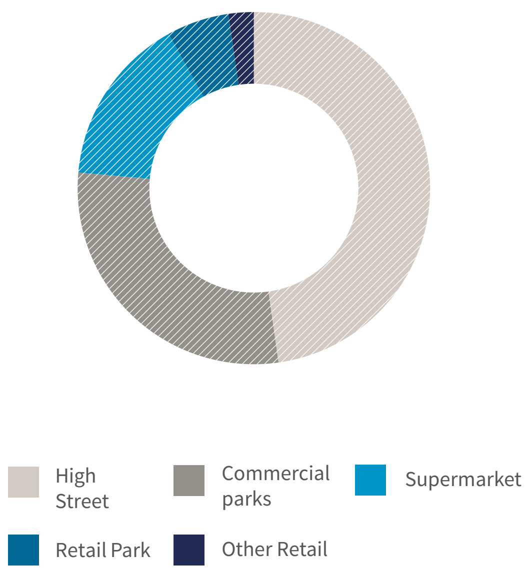
Two important secondary-portfolio transactions have already been finalized in 2018 and other major deals are planned during the year.

VOLUME OF NEW DEVELOPMENTS COMPLETED AND UNDER CONSTRUCTION (GLA > 10,000 M²)



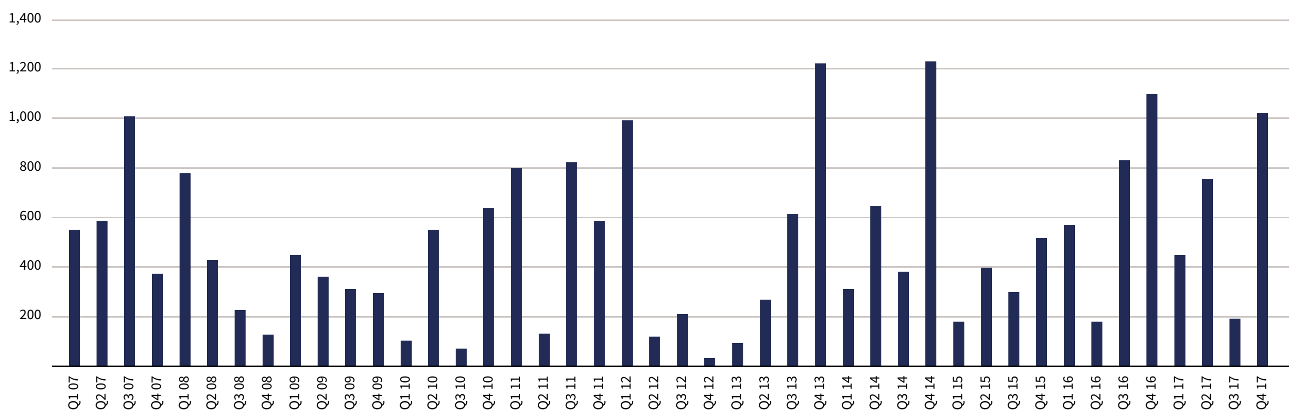
Source: CBRE Research, 4Q17

RETAIL INVESTMENTS BY TYPE OF FORMAT 4Q17



Source: CBRE Research, 4Q17

RETAIL INVESTMENTS SCENARIO IN ITALY



Property yields in Italy, retail						
Earnings %	**Q3 16**	**Q4 16**	**Q1 17**	**Q2 17**	**Q3 17**	**Q4 17**
High Street Prime	3.50	3.25	3.15	3.15	3.15	3.00
High Street Secondary	5.00	4.75	4.75	4.75	4.75	4.50
Shopping Centre Prime	5.00	5.00	4.90	4.90	4.90	4.90
SC Good Secondary	6.00	5.90	5.90	5.90	5.90	5.90
Retail Park Prime	5.90	5.90	5.90	5.90	5.90	5.90
Retail Park Good Secondary	7.00	7.00	6.50	6.50	6.50	6.50

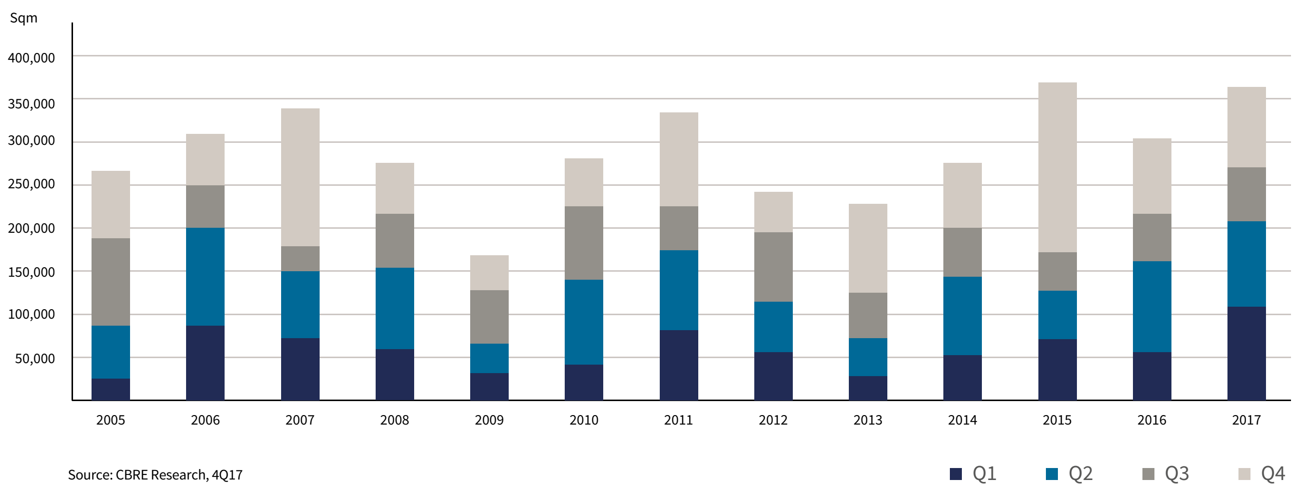
Source: CBRE Research, 4Q17

Offices - Milan

In the fourth quarter of 2017, the volume of office investments in Milan came to Euro 970 million, up by 7% versus the same period last year, and by 85% versus the prior quarter. The year ended with Euro 2.4 billion transacted in Milan alone. That is the highest ever recorded and represented approximately 60% of total investment in the office sector in Italy.

The investment market is becoming increasingly polarized. On the one hand, there are long-term core investors looking for stable properties in central locations, while on the other, private-equity investors are investing in value-added properties requiring renovation.

QUARTERLY EVOLUTION ABSORPTION IN MILAN



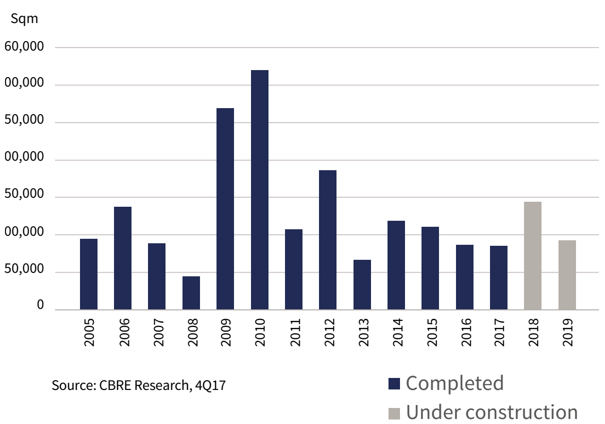
Source: CBRE Research, 4Q17

The prime yield – now stable at 3.5% in Milan – is not expected to contract any further in the coming months, but everything depends on the product that comes onto the market. Investors are focused on central areas outside the Cerchia dei Bastioni (Milan's inner ringroad). The most attractive secondary markets are CityLife, Bicocca and San Donato Milanese.

- The take-up in 2017 stood at 370,000 m², up by 21% versus last year and in line with the record result of 2015.
- The year saw a steady increase in transaction volumes, with rises in all quarters ending with more than 94,000 m² in Q4, up by 48% versus the prior quarter and 9% versus the same period of 2016.
- The vacancy rate also fell in the fourth quarter to 11.5%. Availability continued to decrease in the CBD during October and December, where it now stands at 6.7%, and at Porta Nuova BD, where it reached 5.2%.
- In the fourth quarter, prime rent in the CBD reached Euro 550 per m² per year, up by 10% versus Q4 2016 and the same as recorded in the period 2008-2009.
- Development activity is rising; in December there were 400,000 m² in the pipeline with delivery expected between 2018 and 2020. Of this, 70% is speculative.
- More than 90,000 m² of new projects and renovations were completed in 2017. Grade A properties make up 13% of the total stock.
- The latest deals made in the CBD and asking rents of Euro 570-600 per m² per year point to a further increase in rents in the coming months.
- The volume of investments in Milan came to Euro 970 million, up by 7% versus the same period last year, and by 85% versus the prior quarter.
- Prime and secondary yields were steady in the fourth quarter too, amounting to 3.50% and 5.25%, respectively. No further contractions are expected in the next quarter.

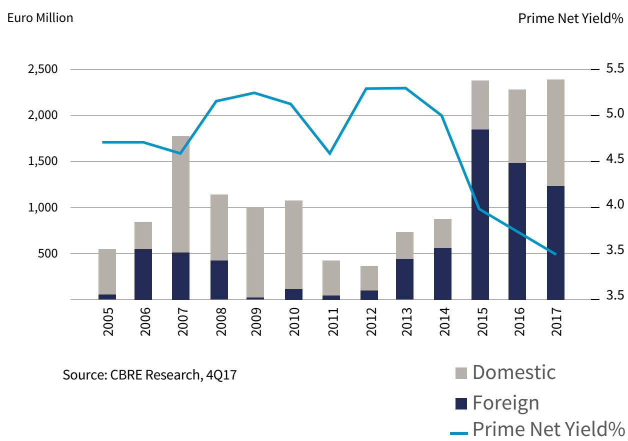
Key indicators in the Milan office sector			
	2016	2017	Q4 2017
Vacancy rate (%)	12.1	11.5	11.5
Take-up (000 sqm)	304	367	94
New Stock (000 sqm)	35.8	24.3	-
Prime rent (Euro per sqm)	500	550	550
Weighted average rent (Euro per sqm)	263	261	261
Prime net yield (%)	3.75	3.50	3.50
Secondary net yield (%)	5.50	5.25	5.25
Volume of investments in office (Euro/mln)	2,285	2,392	970

PROJECTS COMPLETED AND UNDER CONSTRUCTION IN MILAN



Source: CBRE Research, 4Q17

INVESTMENTS BY SOURCE OF CAPITAL AND YIELDS FOR OFFICES IN MILAN



Source: CBRE Research, 4Q17

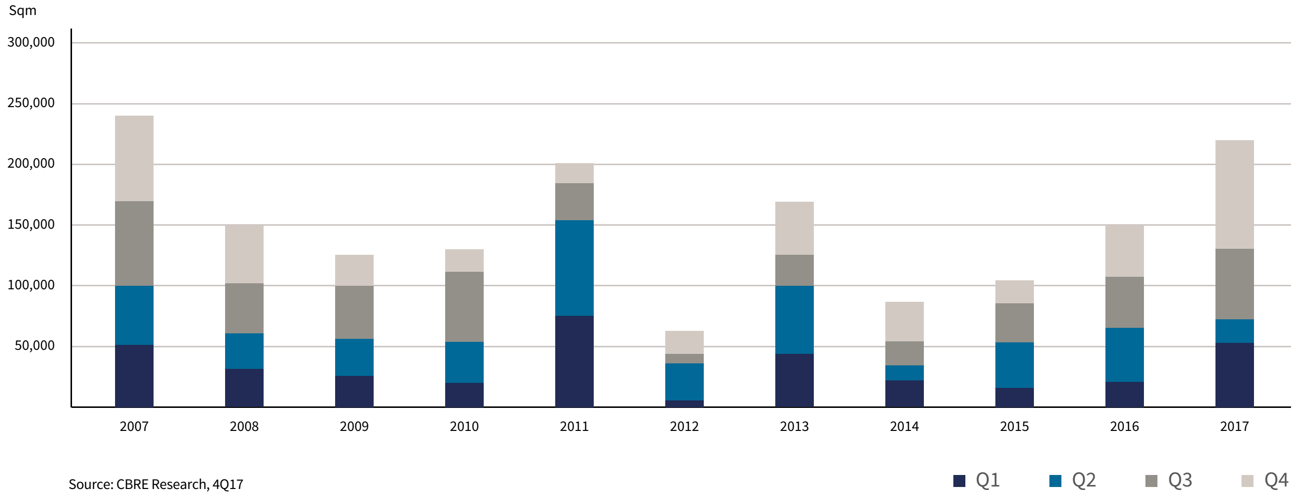
Offices - Rome

The last quarter of 2017 reported office investments of Euro 125 million, almost in line with the volume of the prior quarter. 2017 was confirmed as a record year for property investment, with a volume(*) of just above a billion euro (Euro 1,074 million) – around 50% higher than the total volume last year and 30% higher than the record set in 2006.

The share of domestic capital was predominant in the quarter, at approximately 95%. Four deals took place in the quarter, including one relating to a property in the EUR Laurentina area for approximately Euro 30.5 million and another relating to a property in the historic centre for approximately Euro 35 million, which is to be converted into a hotel.

Interest in Rome remains high, despite administrative difficulties and lower transparency than in Milan. Foreign investors are now aware of the difficulty of finding prime assets and are increasingly looking towards the value-add and/or opportunistic segment in order to reposition and create value. The net prime yield was steady at 4.00%.

QUARTERLY EVOLUTION ABSORPTION IN ROME*



Source: CBRE Research, 4Q17

(*) Absorption figures have been amended for 2014, 2015 and 2016 to reflect changes following the signing of preliminary lease agreements that led to the cancellation of previous agreements. Specifically, this involved: Q414 (-27,000 m²); Q415 (-33,000 m²) and Q116 (-50,000 m²). In 2017, there were pre-lets of 15,600 m² for the new HQ of a leading hi-tech multinational and 43,000 m² for that of a leading energy multinational.

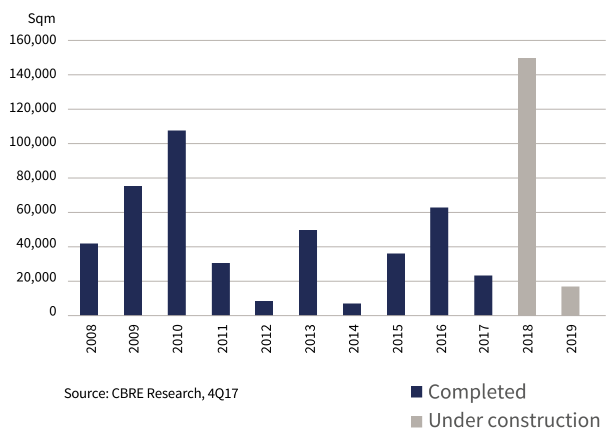
- Absorption in the fourth quarter amounted to a record 90,482 m², rising strongly (+54%) versus the prior quarter.
- An outstanding performance indeed for the full 2017 with 220,616 m², confirming the strong trend seen in recent years (+46% versus 2016 and + 110% versus 2015), and slightly lower (-9%) only than the record result of 2007.
- The number of transactions in the quarter (44) was up further versus 37 in Q3 and 27 in Q2. 2017 as a whole saw a 20% increase in transactions (141 versus 117 in 2016).
- The average area of the units absorbed increased in the quarter (2,056 m², +30% on Q3), while the figure was also up for the whole of 2017 to 1,564 m² (+21% versus 2016).

- Absorption in the quarter was driven by a pre-let in the EUR Torrino area of approximately 43,000 m² – accounting for 48% of the total in the quarter – by a leading energy multinational.
- The city centre and EUR remained the most dynamic areas, accounting for approximately 77% of total transactions in the quarter.
- Prime rents were stable in the CBD at Euro 420 per m² per year and in EUR at Euro 330 per m² per year.
- The pipeline of developments slightly increased, with approximately 165,000 m² under construction renovation expected between 2018 and 2019; no completion in the quarter.
- Investments in the period of approximately Euro 125 million confirmed the record trend for the entire year.
- Net prime yields steady at 4.00%.

Key indicators in the Rome office sector			
	2016	**2017**	**Q4 2017**
Stock (M Sqm)	7	7 (*)	7 (*)
Vacancy rate (%)	9	12.5	12.5
Take-up (000 sqm)	150.1	220.6	90.5
Prime rent CBD (Euro per sqm year)	400	420	420
Prime rent EUR (Euro per sqm year)	330	330	330
Prime net yield (%)	4.00	4.00	4.00
Volume of investments in office (Euro/mln)	719	1,074 (**)	124.5

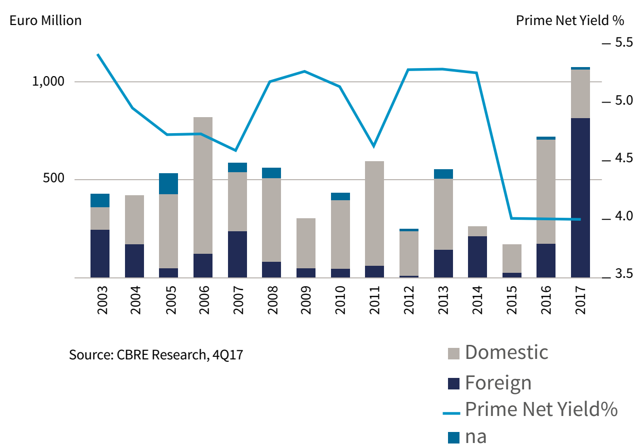
(*) The stock indicated does not include the area owned by the public sector.
(**) Q1 2017 investment value adjusted: for the four assets in the Obelisco Fund (Investire SGR) sold in the last quarter, the value for individual property has been included.

PROJECTS COMPLETED AND UNDER CONSTRUCTION IN ROME



Source: CBRE Research, 4Q17

INVESTMENTS BY SOURCE OF CAPITAL AND YIELDS FOR OFFICES IN ROME



Source: CBRE Research, 4Q17

INDEPENDENT VALUER APPRAISALS

In relation also to Consob recommendation no. DIE/0061944 of 18th July 2013 on the preparation of the consolidated financial statements at 31st December 2017, the Group, subject to certain exceptions specified below, made use of the services of CB Richard Ellis as primary independent valuer in order to carry out appraisals on the property portfolio to support the Directors in their assessments.
It should be noted that, for the Group's property portfolio held through the Petrarca Fund, the Group appointed K2Real S.r.l. as independent valuer.

On completion of the portfolio appraisal process at 31st December 2017, after reviewing the reports prepared by the independent valuers, the Company incorporated the relevant results at the Meeting of the Board of Directors held on 7th February 2018.

In performing their analyses, the independent valuers adopted internationally accepted methods and standards, using, however, different valuation methods based on the type of asset being analyzed. The criteria can be generally summarized as follows.

- **Comparative method:** this approach is based on the direct comparison of assets under valuation with other "comparable" assets recently subject to sale.

- **Discounted cash flow method**: this approach is based on the determination of future net income (rent revenue net of all kinds of costs), which also envisages any periods of vacancy on relocation and final sale, at a value obtained by capitalizing market rents with capitalization rates (Exit Cap rate) that take account of the specific features of the property in the specific market context. Sales costs are deducted from the above final amount. Net flows thus determined, discounted (at a rate that takes account of the risk associated with the specific investment property) and algebraically added, provide the gross value of the property; the Market Value is, instead, obtained by separating the implicit buying and selling costs.

- **Conversion** (or residual) **method**: this approach, used for areas to develop or properties likely to be restructured, consists in estimating the Market Value of the asset by determining the difference between the market value of the "converted" asset and all the conversion expenses (direct and indirect costs, professional costs, unexpected items, agency fees and financial charges), net of the profit that a normal market operator would expect as a return for the risk associated with the conversion and sale (or revenue generation).

The object of the estimation performed by the independent valuer is Market Value, as defined by the RICS professional valuation standards, under which Market Value is "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".
Aedes pursues maximum transparency in the selection and renewal of appointed valuers, as well as in the different stages of the valuation process. Internal staff checks the consistency and correct application of the assessment criteria used by the valuer, ensuring that the methods used are consistent with commonly accepted practice. Should significant discrepancies arise, such as to materially alter the valuation, the necessary verifications are carried out, including in contradiction with the valuers.
The independent valuer is chosen based on professional qualities, nature of the task, and the specifics of the property portfolio valuated. Valuers are also chosen taking account of the presence of possible conflicts of interest in order to assess whether their independence may be weakened.

Independent valuers are selected by the Company in an alternating fashion to ensure a more objective and independent valuation of property assets.

OWNED ASSETS

The property portfolio owned by the Aedes Group is split up into two macro-categories:

Revenue portfolio (or "rented")
Namely existing rented assets or project developments intended to maintain revenue.
This category includes the following product segments:

- Retail: comprising rented assets and revenue developments for commercial use (mainly stores, parks and shopping centers);
- Offices: comprising rented assets and revenue developments intended for tertiary-office use;
- Other Uses: comprising rented assets and revenue developments, with intended use other than the previous, including hotels;

These investments can also be classified, depending on the development stage, in:

- "rented assets" and
- "revenue developments" (o "development for rent"), namely property development projects intended to build up the rented assets portfolio.

To be sold portfolio
This category consists of assets intended for sale in the short/medium term. It is split up into the following segments:

- Properties for sale (or assets to be sold): comprising existing property expected to be sold in bulk or piecemeal;
- Areas to sell (or "land to be sold"): areas and land sold at any stage of the production cycle, from the status of agricultural land until the obtaining of different kinds of authorizations and permits.

The Company holds investment property in the revenue portfolio or to be sold portfolio mainly directly or through subsidiaries and within the scope of the Group, i.e., through non-controlling equity interests in vehicle companies (so-called "SPV" or "special purpose vehicles") and real-estate funds.

The table below shows the pro-rata owned property assets by product implementation phase at 31st December 2017:

				GAV				NAV
Euro/000	**Consolidated**	**Not consolidated Funds & JV**	**Total Portfolio**	**% on Total Portfolio**	**Consolidated**	**Not consolidated Funds & JV**	**Total Portfolio**	**% on Total Portfolio**
Retail	115,410	87,467	202,877	34.0%	62,199	37,095	99,294	28.6%
Office	185,000	534	185,534	31.1%	101,910	273	102,183	29.5%
Other Uses	4,310	-	4,310	0.7%	2,496	-	2,496	0.7%
Rented Assets	**304,720**	**88,001**	**392,721**	**65.8%**	**166,605**	**37,368**	**203,973**	**58.8%**
Retail Development for Rent	115,405	-	115,405	19.3%	97,147	-	97,147	28.0%
Other Uses Development for Rent	9,330	-	9,330	1.6%	6,440	-	6,440	1.9%
Development for Rent	**124,735**	**-**	**124,735**	**20.9%**	**103,587**	**-**	**103,587**	**29.9%**
Sub Total Portfolio Rented/ for rent	**429,455**	**88,001**	**517,456**	**86.7%**	**270,192**	**37,368**	**307,560**	**88.7%**
Office	3,700	-	3,700	0.6%	1,924	-	1,924	0.6%
Other Uses	47,210	28,142	75,352	12.6%	28,232	9,051	37,283	10.8%
Sub Total Portfolio to be sold	**50,910**	**28,142**	**79,052**	**13.3%**	**30,156**	**9,051**	**39,207**	**11.3%**
Total Group Portfolio	**480,365**	**116,144**	**596,509**	**100.0%**	**300,348**	**46,418**	**346,767**	**100.0%**
Minorities	**GAV**				**NAV**			
Praga France Sarl (25%)	1,240				850			
Total Consolidated Portfolio	**481,605**				**301,198**			

At 31st December 2017, the property assets owned by the Aedes Group, pro rata, amounted to a market value of Euro 596.5 million, including minorities and real-estate funds, up by approximately 19% versus the figure in 2016 (Euro 501.0 million).

Consolidated GAV (Gross Asset Value), amounting to Euro 481.6 million, rose by Euro 83 million versus 31st December 2016, of which Euro 16.0 million on a Like-for-Like basis, and Euro 67.0 million for net purchases. Specifically, property portfolios were purchased in 2017 for the amount of Euro 68.8 million, while properties were sold or deconsolidated for the amount of Euro 1.8 million. As a result of the purchases made in 2017, the Group has lease contracts in place for a total of Euro 19 million on an annual basis, versus leases of Euro 18 million on an annual basis in the Group's portfolio at 31st December 2016.

Regarding the property portfolio held by the Parent and by subsidiaries, additional details are shown as follows[1]:

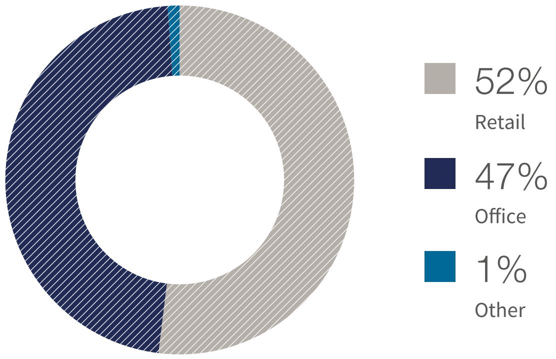
Category	Method of accounting	Book value	Market Value
Inventory	IAS 2		
Fixed assets: Properties under Development	IAS 40 - Cost		
Fixed assets: Investment properties	IAS 40 - Fair Value	304,720	304,720
Rented Assets		**304,720**	**304,720**
Inventory	IAS 2		
Fixed assets: Properties under Development	IAS 40 - Cost	124,735	124,735
Fixed assets: Investment properties	IAS 40 - Fair Value		
Development for Rent		**124,735**	**124,735**
Subtotal Portfolio Rented/for Rent		**429,455**	**429,455**
Inventory	IAS 2	49,531	51,466
Fixed assets: Properties under Development	IAS 40 - Cost	668	684
Fixed assets: Investment properties	IAS 40 - Fair Value		
Subtotal Portfolio to be sold		**50,199**	**52,150**
Total Portfolio		**479,654**	**481,605**

1 In under Consob recommendation no. 9017965 of 26th February 2009.

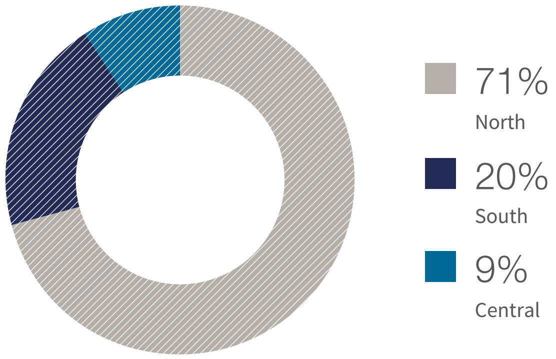
"Revenue" Portfolio - Rented Assets

At 31st December 2017, the pro-rata share of the Group's rented assets at market value was Euro 392.7 million, of which 78% owned directly or through companies and funds within the scope of consolidation, and 22% through joint ventures and other real-estate funds.
The breakdown by use shows that 52% consists in Retail properties, 47% in Office properties, and the remaining 1% in properties for Other Uses.

RENTED ASSETS
Rented by use



RENTED ASSETS
Geographic Breakdown



The duration of the investments in rented assets is medium-long term and is aimed at maximizing rental profits through new leases or renegotiations in line with market rents and, consequently, with the increase of the intrinsic value of the property assets.

The geographical areas of investments in rented assets are Northern Italy (71%), Southern Italy (20%), and Central Italy (9%).

The leverage on rented assets is 45.3% on average, in line with the targets set by the Group for the core investments of the SIIQ/REIT model.

Serravalle Scrivia (AL), Serravalle Outlet Village, Pragasei S.r.l. – opened in IVQ 2016.

Revenue portfolio - Development for Rent

The revenue portfolio segment named Development for Rent consists in development areas intended mainly for commercial use, which envisage the development of a number of initiatives and subsequent revenue generation.

On 30th March 2017, a town-planning agreement was concluded with the Municipality of Caselle Torinese on the development of the Caselle Open Mall project, located in the Municipality's area and held through the 100% owned subsidiary Satac SIINQ S.p.A..
In November, Aedes SIIQ S.p.A. – in partnership with iP2 Entertainment, a leader in the development of indoor theme parks – signed an agreement with iP2 Entertainment Holdings III INC and National Geographic Partners LLC lasting over 10 years from the opening of the Caselle Open Mall, for the in-mall construction and management of the first "Family Edutainement Centre" in Europe, which will operate under the National Geographic brand.
In 2017, work also continued on building Phase C of the Serravalle Retail Park (through the wholly-owned subsidiary Novipraga SIINQ S.p.A.), due to be opened in the first half of 2018.
At 31st December 2017, the market value of the pro-rata share of the Group's investments in properties under development amounted to Euro 124.7 million, all held directly.
The leverage is on average lower than the rest of the portfolio and stands at 17.0%. As in 2017 for Phase C of the Serravalle Retail Park, further loan agreements are expected to be concluded for the main initiatives, in order to also support development costs, near the beginning of the construction work.

Caselle Open Mall, Caselle Torinese (TO) - Satac SIINQ S.p.A.

The chart below shows the status of the main revenue development initiatives, which fall in the scope of consolidation.

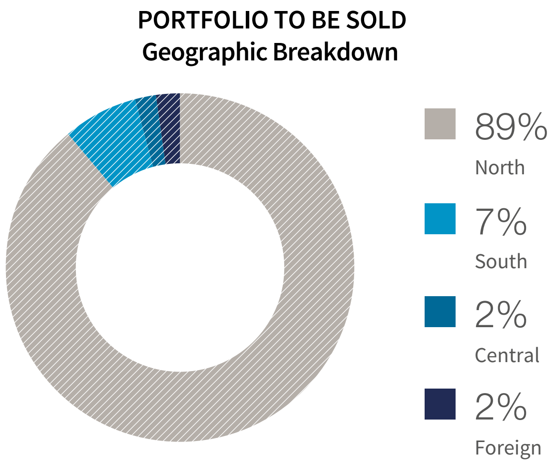
Asset	SPV	Location	Intended use	Planned town-planning building capacity (m^2)	Administration and implementation status
Serravalle Outlet Phase 7	Pragaundici SIINQ S.p.A	Serravalle S. (AL)	Commercial	4,510	Master plan approved. Executive town-planning tool approved. Town-planning agreement concluded. Commercial licences obtained. Positive outcome of environmental audit. Process for obtaining building permits completed.
Serravalle Retail Park - Phase C	Novipraga SIINQ S.p.A.	Serravalle S. (AL) Novi Ligure (AL)	Commercial	19,035	Master plans approved. Executive town-planning tools approved. Town-planning agreements concluded with the Municipalities of Serravalle and Novi Ligure. Commercial licences obtained. Positive outcome of environmental audit. Building permits obtained. Buildings under development and infrastructure work.
Roero Retail Park - Phase C	Aedes SIIQ S.p.A.	S. Vittoria d'Alba (CN)	Commercial	6,396	Master plan approved. Executive town-planning tool approved. Town-planning agreement concluded. Commercial licences obtained. Positive outcome of environmental audit. Building permits application submitted (currently ready to be issued).
Caselle Open Mall	Satac SIINQ S.p.A.	Caselle T. (TO)	Commercial Office	153,000	Master plan approved. Executive town-planning tool approved. Town-planning agreement concluded. Commercial licences obtained. Positive outcome of environmental audit. Building permits application submitted.

"To Be Sold" Portfolio

The "To Be Sold" portfolio includes existing properties (properties for sale or assets to be sold) expected to be sold in bulk or piecemeal, and areas (areas to be sold or land to be sold) expected to be sold at any stage of the production cycle, from the status of agricultural land up to full attainment of various kinds of authorizations and permits, without carrying out the relevant development.

The Portfolio to be sold is owned 64% directly and through subsidiaries, and the remaining 36% through joint ventures and real-estate funds. Leverage at end 2017 stands at an average 40.8%.

Cannes (F), Boulevard de la Croisette, 2 – Praga France S.à.r.l.



Serravalle Scrivia (AL), Villa Bollina – Pragaotto S.r.l.

SERVICES AREA

The property services of the Aedes Group are mainly of the captive kind, aimed at controlling the Group's investments and supporting the target companies. The provision of property services is performed in particular by the following companies:

Aedes SIIQ S.p.A.
The company provides direct services for asset management, administrative and financial management and corporate governance to subsidiaries or associates. Additionally, it guarantees the management of the information systems and general services for Group companies.

Praga RES S.r.l
Service company, resulting from the merger of Praga Service Real Estate S.r.l. and Praga Construction S.r.l., active in the organization and development of master plans, project and construction management, preparation and verification of executive plans and agreements, coordination and development of building permits, management of commercial licences and environmental audits, chief engineer/tenant coordinator, facility management, mainly at intra-group level.

2.12 SIIQ/REIT legal and regulatory framework

The Special Regime of SIIQs/REITs (Listed Property Investment Companies) was introduced by art. 1, paragraphs from 119 to 141, of Law no. 296 of 27th December 2006 (2007 Budget Law) as subsequently supplemented and amended. Lastly, art. 20 of Law Decree no. 133 of 12th September 2014, in force from 13th September 2014, and converted, with amendments, by Law no. 164 of 11th November 2014, introduced a number of important amendments. The requirements for admission to the special tax regime guaranteed to SIIQs/REITs can be summarized as follows:

Subjective requirements

- Company established as an S.p.A. (joint-stock company)
- Residence in Italy or in an EU Country
- Status of company listed on Italian regulated markets

Statutory requirements

- Investment rules
- Risk concentration limits on investments and counterparties
- Maximum limit of leverage on an individual and group level

Investment Structure Requirements

- Ownership requirement: no Shareholder must hold over 60% of voting rights in the Ordinary Shareholders' Meeting and of profit sharing rights
- Float requirement: at least 25% of shares must be held by shareholders who do not hold more than 2% of the voting rights in the Ordinary Shareholders' Meeting and of profit sharing rights (not applicable to companies that are already listed).

Objective Requirements

- Property lease as the main activity, a condition assessed by two indices:
  - Asset test: properties intended for lease amounting to at least 80% of the assets.
  - Profit test: lease revenue amounting to at least 80% of the positive items in the income statement.
- Requirement in each financial year to distribute to shareholders at least 70% of net profit arising from leasing and ownership of investments
- Distribution requirement, within 2 years following disposal, for 50% of capital gains from properties under lease and from investments in SIIQs/REITs, SIINQs and qualified real-estate funds.

Failure to comply for 3 consecutive years with one of the priority conditions results in permanent termination of the special regime and application of the ordinary rules from the third considered year.

Following assessment of the subjective and investment requirements and adoption of the required Company By-Law amendments, on 26th November 2015 Aedes SIIQ S.p.A. exercised the option for joining the Special Regime, effective as from 1st January 2016. Pursuant to art. 130 of Law no. 296/2006 the Company opted, in lieu of the application of the substitute tax, for the inclusion of the overall amount of capital gains, net of the relevant capital losses, calculated on the normal value of properties, in the business income generated during the period before the Special Regime, i.e. 2015.

With regard to Statutory Requirements, in brief, under the Company By-Laws, business activities must comply with the following rules on investments, risk concentration and leverage limits:

1. investments in a single immovable asset other than the development plans covered by a single town-planning scheme, for a maximum of 25% of the Group's property assets;
2. lease rent revenue from a tenant or from tenants belonging to the same group, representing up to 30% of overall revenue from the Group's property lease business. The above limit is not applicable should the properties be rented to one or more tenants belonging to a group of national or international importance;
3. leverage at a Group level of up to 65% of the value of the property assets; leverage at an individual level of up to 80% of the value of the property assets.

The above limits can be exceeded in the event of extraordinary circumstances or beyond the control of the Company. Unless otherwise in the interest of the Shareholders and/or the Company, these limits shall not be exceeded for more than 12 months.

In light of the financial position and results of operations of the Parent Company at 31st December 2017, the second reference year for verifying the parameters set by the Special Regime of SIIQs/REITs, the asset and profit requirements have both been met. Regarding the asset test, in fact, the value of properties and areas owned and to be leased represents over 80% of the total asset value; regarding the profit test, the amount of revenue generated by the lease of property held through ownership or other property rights, and of gains on the sale of property intended for leasing represents over 80% of the positive components of the income statement. For further information, reference should be made to paragraph 5.7 of the financial statements, section "Significant estimates and assumptions".

2.13 Main risks and uncertainties

The following are the main sources of risk and eligible hedging strategies.

STRATEGIC RISKS

Market risk

Market risk is the possibility that changes in the general performance of the economy, in the property market and in exchange rates may adversely affect the value of assets, including property assets, liabilities or expected cash flows.

The Group monitors the general performance of the economy through appropriate research and analyzes the performance of the property market every six months. The Group has a suitable strategy for diversifying its property portfolio, taking into account both geographical area and asset type. Additionally, the Group's strategy is mainly focused on high-quality assets located in major urban centres or leading business areas that have demonstrated high rental potential even during negative market cycles, due to demand being less volatile than for smaller assets in secondary cities.

To reduce vacancy risk, the Group markets to premium tenants, with long-term leases including appropriate safeguards. The risk of failing to re-lease vacant spaces is mitigated by the high quality of the Group's property assets.

OPERATING RISKS

Credit risk

Credit risk lies mainly in a client's inability to pay, regarding specifically tenants of owned assets. The Group is not affected by significant credit risk concentration, given the adequate diversification in terms of tenants.

The activity carried out to reduce credit risk exposure is based on an analysis of the composition of the client portfolio for each business area, to ensure adequate guarantee on the financial health of clients. Where deemed necessary, suitable guarantees are required for property transactions.

The maximum theoretical exposure to credit risk for the Group is represented by the book value of financial assets, in addition to the face value of guarantees given to third-party debts or commitments as set out in Note 31.

Most of the financial assets are from associates. The financial assets consist mainly of receivables, whose collection is tied to the development/disposal cycle of the property assets of the associates. Any write-downs of financial assets are made on an individual basis, and the write-downs are deemed to reflect the actual collection risk.

Lease risk

Lease risk lies in the possibility that owned properties remain vacant for extended periods of time, exposing the Group to a reduction in cash flows from rents and an increase in property costs.

The Group has adopted a policy based on ongoing relations with tenants, with a view to their retention.

The current property market situation, with specific regard to offices, does not rule out the possibility that certain tenants, on expiry of the contract or during the window of exercise of the so-called break option, may exercise the right to terminate the lease contract or demand renegotiation of the lease rent.

The Group monitors this risk by maintaining ongoing relations also with leading specialized real-estate agencies.

Risks arising from the use of the services of construction companies

In implementing its initiatives, the Group makes use of the services of construction companies, the dealings of which are governed by specific procurement contracts under the law. While the Group uses the services of leading construction companies, and the procurement contracts, in the event of disputes with the end user, provide for the possibility of claiming compensation from the contractor, one cannot rule out the possibility that the construction companies fail to meet their obligations in a timely manner, producing potential adverse effects on the operating and financial activities of the Group.

Occupational health and safety risk and environmental risk

The Aedes Group has taken all the necessary steps to safeguard health in the workplace, as required by law. For the purposes of the regulations, in 2017 no such accidents occurred as to involve serious or extremely serious injuries in the workplace, or deaths.

The risks related to the occurrence of events that may cause effects on the environment or on the health of the population in the areas of operation of the Group are under the spotlight of public regulators and are the object of increasingly stringent legislation. In the year under review, the Aedes Group caused no damage to the environment for which it was found guilty, nor was it imposed fines or penalties for environmental offences or damage.

The Company is strongly committed to preventing such risks and has adopted management systems capable of preventing and documenting the management approach to these issues.

Additionally, the Company pays special attention to the aspects governing administrative, safety and environmental liability related to the risk of the perpetration of offences as set out in Legislative Decree 231/01. For further information, reference should be made to the two sections in the Sustainability Report: “3.1 Aedes Group approach to sustainability” and “3.4 Responsibility towards people”.

COMPLIANCE RISKS

Liability pursuant to Legislative Decree no. 231/01

The risk pursuant to Legislative Decree no. 231/01 is that the Company may incur penalties related to the regulations governing the liability of legal entities in the perpetration of offences pursuant to Legislative Decree no. 231/01.

In order to reduce such risk, the Company has adopted the “Organizational Model” or “Model 231”, divided into a General Section, which presents targets, structural guidelines and implementation procedures of the Organizational Model, and a Special Section that provides an overview of the offences pursuant to Legislative Decree no. 231/01 considered relevant as a result of risk assessment, establishes rules of conduct for Model 231 recipients, and sets standards for the preparation of the procedures in the business areas involved.

The Company has also drawn up a Code of Ethics that applies to the entire Group staff, who are committed to comply with and enforce the principles of the Code as part of their duties and responsibilities.

The Company has additionally appointed a Supervisory Body with autonomous powers of initiative and control, tasked with overseeing the effectiveness, adequacy, operation and compliance with the Organizational Model, also seeing to its constant updating.

For further information, reference should be made to the two sections in the Sustainability Report: “3.1 Aedes Group approach to sustainability”, as well as to the Report on corporate governance and ownership structure for 2017 prepared pursuant to art. 123-bis of the TUF.

Regulations for Listed Companies

The Company has the status of an issuer of securities listed on a regulated market and is, therefore, subject to specific regulations imposed by operational and oversight bodies.

The Company pays the utmost attention to compliance with legal and regulatory requirements arising from the listed company status. Specifically, Legal Counsel and Investor Relations watch over the obligations towards supervisory and market management authorities, handling the market disclosure process. This process, which requires close coordination with the internal departments for the identification, verification and communication of administration, accounting and management data and information, is carried out in compliance with specifically defined internal regulations and under the supervision of the Chairman, Chief Executive Officer and the Financial Reporting Manager.

- **Liability pursuant to Law no. 262/05**
  The risk under Law no. 262/05 refers to the liability of the Financial Reporting Manager, pursuant to Law no. 262/05.
  In compliance with the regulatory provisions of Law no. 262 of 28th December 2005, "Investment Law", the Company has adopted an internal administrative-accounting control system over financial reporting, with the purpose of (i) ascertaining that the Internal Control System currently in place is able to provide reasonable certainty on the true and fair view of income statement, balance sheet and cash flow information submitted; (ii) implementing adequate administrative-accounting procedures for the preparation of the financial statements and consolidated financial statements, as well as any other disclosure of a financial nature; (iii) guaranteeing the effective application of the administrative and accounting procedures prepared over the period to which the above documents refer.

- **Tax Risk - SIIQ/REIT Regime requirements**
  The risk arising from the SIIQ/REIT Regime is that the Company may fail to comply with the asset and profit requirements to remain in such tax regime, with the consequent loss (in the event that such circumstance extends under the time limits of the law) of the status of SIIQ/REIT. The Company intends to closely monitor the associated tax risks; the assessments made on the tax model adopted are prepared with the assistance of selected specialists. Separate accounting is used for taxable and tax-exempt operations. The structure is designed to carry out regular asset and profit tests in order to monitor compliance with legal requirements, including in the long term.

In light of the financial position and results of operations of the Parent Company at 31st December 2017, the second reference year for verifying the parameters set by the Special Regime of SIIQs/REITs, the asset and profit requirements have both been met. Regarding the asset test, in fact, the value of properties and areas owned and to be leased represents over 80% of the total asset value; regarding the profit test, the amount of revenue generated by the lease of property held through ownership or other property rights, and of gains on the sale of property intended for leasing represents over 80% of the positive components of the income statement.

FINANCIAL RISKS

- **Interest rate risk**
  The Group's exposure to interest rate risk originates mainly in medium and long-term financial payables. Floating-rate payables expose the Group to a cash flow risk, while fixed-rate payables expose the Group to a fair value risk.
  The Aedes Group's exposure to risk originates mainly in payables indexed to a floating market rate, with a resulting risk of cash flow fluctuations, since the changes in fair value are not booked in the income statement and do not present cash flows that are subject to market conditions.
  Interest rate risks can be reduced by concluding derivative contracts. The instruments generally used are "plain vanilla" or "step-up" interest rate swaps, which convert the floating rate into a fixed rate, and/or caps, which set a cap on the interest rates payable by the Company, and/or collars, namely instruments represented by the purchase of a cap and sale of a floor, which set a floor and a cap on interest rates payable by the Company, allowing it to maintain a floating rate within the set range.
  A derivative instrument is chosen by analyzing the individual investment projects and relevant loans, i.e. assessing the market conditions and the medium-long term strategy.

In order to reduce the Group's overall exposure to interest rate risk, the Company concluded a derivative contract on 4th November 2015 with the following characteristics:

Type	zero cost COLLAR
Effective date	31st December 2015
Maturity	31st December 2020
Notional value	Euro 50 million, Bullet
Floating-Rate	Euribor 3 months, act/360, quarterly
Cap strike	1.00%
Floor strike	0.00%

The notional amount underwritten amounts to approximately 20.9% of the Group's gross financial debt at 31st December 2017. It should be noted that the instrument is not tied to a specific loan, but has the purpose of reducing the risk of an increase in interest rates on the Group's overall exposure. Accordingly, any changes in the period will be recorded in the income statement as period adjustments to fair value.

A Euro 30 million bond with a fixed interest rate of 5% was also issued in late December. Overall, therefore, the portion of debt exposed to interest rate risk is 66.8%, down by more than two percentage points versus 2016.

Exchange rate risk

At 31st December 2017, the Group is not subject to exchange rate risk, since it has no exposure to currencies other than the Euro.

Liquidity risk

Liquidity risk is the risk that the Company and the Group fail to meet their payment obligations, due to the difficulty in raising funds (funding liquidity risk) or in liquidating assets on the market (asset liquidity risk).
This may cause adverse effects on the financial performance in the event that the Company or the Group are forced to incur additional costs to meet their commitments or, in a worst case scenario, a condition of insolvency endangering business continuity.
The Company, through its Finance Department and ongoing supervision by the Parent Company's executive bodies, keeps a watchful eye on cash and short-term financial commitments. For this purpose, the Group monitors the liquidity risk by preparing a detailed periodical financial budget, considering a time horizon of at least one year and the effective management of property sales and assumption of financial commitments.

In identifying the criteria to be used for the preparation of these financial statements, the Company/Group has taken account of cash flows from operations and financial commitments affecting all Group companies for a period of 12 months from the date of the forthcoming approval of the financial statements for the year under review, including the planned investing activities and forthcoming maturity of specific loan agreements currently in place.
Based on the requirements arising from the financial budget, the Company has identified the main funding sources, deriving mainly from:

- refinancing of certain assets;
- disposal of certain assets;
- rescheduling of short-term credit facilities.

Based on the information and the documentary evidence available at the date of preparing the financial statements at 31st December 2017, and on the progress of the initiatives currently in place with regard to the above funding sources, there are no significant risks of a possibility of not completing the actions according to the schedule and procedures set out in the financial budget.
The Group's liquidity situation at the end of the twelve-month period is expected to be positive, despite acquisitions and investments in existing properties, to be financed using credit, via the market and/or by disposing of existing assets during the year. Accordingly, the Directors believe there are no uncertainties on the Company and Group's ability to meet their current and prospective financial obligations in the foreseeable future.

MAIN OUTSTANDING DISPUTES AND TAX AUDITS

Information on the main disputes and tax audits involving Group companies pending at end 2017 is found below. With regard to these main and other minor disputes, the Group has made additions to the provisions for risks where it believes it will probably lose the case.

Main disputes as defendant

FIH DISPUTE

On 14th December 2011, Fih S.a.g.l. (formerly Fih SA) brought arbitration proceedings against Satac S.p.A. (now Satac SIINQ S.p.A.) to challenge the recapitalization resolutions passed by the Satac shareholders on 10th November 2011 (the "First Arbitration"); Fih concurrently filed an appeal with the Court of Alessandria requesting, by injunction, suspension of the execution of the resolution. In February 2012, the Court of Alessandria dismissed the appeal, ordering Fih to pay the legal expenses. As thoroughly explained in prior annual and interim financial reports, to which reference is made to trace the specific events that gave rise to the disputes, it should be noted that the grounds of appeal against the recapitalization resolutions put forward by Fih in the First Arbitration were based on: (i) the alleged non-compliance with the law of the balance sheet - prepared by the managing body of Satac under art. 2446 of the Italian Civil Code, and underlying the first capital increase intended to cover losses and replenish the share capital - allegedly taken for the sole purpose of excluding Fih from Satac; (ii) the alleged unlawfulness of the resolution on the second capital increase, owing to the fact that Fih, having not participated in the resolution to write off and replenish the share capital - and, therefore, being no longer a shareholder – had not been able to participate in the subscription for and payment of the second increase.

With the award rendered on 4th December 2014, the Arbitration Board dismissed all the claims submitted by Fih in the First Arbitration. The award was challenged under art. 827 and ensuing articles of the Code of Civil Procedure by Fih before the Court of Appeal of Turin. With the ruling issued on 17th January 2017, the Court of Appeal fully dismissed the action for annulment brought by Fih and ordered it to pay Satac the legal expenses for the appeal proceedings. Fih filed an appeal with the Court of Cassation against the ruling issued by the Court of Appeal of Turin. On 28th April 2017, Satac, in turn, served a counter-appeal and conditional cross-appeal to Fih, requesting the Supreme Court to declare the appeal inadmissible and, in any case, to dismiss the appeal filed by Fih. Within the time limits of law, Fih did not serve any counter-appeal to oppose the conditional cross-appeal by Satac. The hearing has not been scheduled yet.

In May 2014, Fih, again with regard to the events that led to its exit from the shareholder structure, filed an arbitration proceeding in Milan (the "Second Arbitration") against Pragacinque S.r.l. (now Aedes SIIQ S.p.A.) regarding the Framework Agreement concluded by the latter and the trust companies Cofircont Compagnia Fiduciaria S.p.A. and Timone Fiduciaria S.p.A. in January 2007 for the purpose of acquiring a share in the capital of Satac. In connection to the Second Arbitration, in May 2014 Fih also filed an appeal with the Milan Court against Pragacinque for the court-ordered seizure of 55.15% of Satac and for the attachment of Pragacinque assets. With the decision rendered on 12th June 2014, the Court of Milan - dismissing the court-ordered seizure and considering groundless the requirement of the periculum in mora relating to the other measures requested - dismissed the above appeal by Fih and ordered it to pay the legal expenses to Pragacinque.

With regard to the Second Arbitration, the Arbitration Board ruled on 23rd May 2016 that Pragacinque had failed to fulfil its obligation on the capitalization of Satac SIINQ S.p.A. as set out in the above Framework Agreement, ordering the Company to pay damages to Fih, in the amount - determined on an equitable basis and having regard to the contributory negligence of Fih - of Euro 2,093,000.00 plus legal interest, apportioning legal expenses. By writ of appeal against the arbitration award under art. 827 and ensuing articles of the Code of Civil Procedure, served on 27th January 2017, Fih summoned Aedes SIIQ S.p.A. before the Court of Appeal of Milan, requesting to establish and declare the invalidity of the award. Aedes filed an appearance by lodging its response on 3rd May 2017, requesting dismissal of all the claims raised by Fih with its own appeal. At the first hearing held on 30th May 2017, the Panel, deeming any discussion unnecessary, adjourned the proceedings on 11th April 2018 for the closing arguments.

The above proceedings brought by Fih fall into a general context of conflict with said company, in which most recently Fih has brought yet another action (alongside a citizen of Caselle Torinese) before the Regional Administrative Court of Piedmont against the Municipality of Caselle and SATAC SIINQ S.p.A. for the annulment of the documents that led to the signing of the Town-Planning Agreement to implement the Detailed Plan as regards Sub-Portion A-B of the ATA Area. On 1st December 2017, Satac SIINQ S.p.A. appeared before the Regional Administrative Court (TAC), asking it to declare the appeal inadmissible, unacceptable and, in any event, to reject the appeal on its merits.
Based on the legal opinions rendered on the dispute, the Group considers it possible, but unlikely, to lose the case.

RFI DISPUTE

Retail Park One S.r.l. filed an appeal with the Piedmont T.A.R. (Regional Administrative Tribunal) against the Municipality of Serravalle Scriva - RFI S.p.A. - Italferr and the Ministry of Infrastructure and Transport, through notice also to Cascina Praga SIINQ S.p.A., on the partial annulment, prior to the suspension/granting of precautionary measures, of building permit no. 3648 of 14th April 2016 (Serravalle Retail Park Phase A), only as regards the requirements therein, including the delivery of a first request bank/insurance surety in favour of RFI S.r.l.. With the decision rendered on 28th July 2016, the Piedmont T.A.R dismissed the suspension request by Retail Park One S.r.l., which then filed a cautionary appeal against the dismissal order. At the hearing held on 19th January 2017, the Council of State upheld the cautionary appeal and, by order no. 167/2017, suspended the decision on the building permit relating to the delivery of a first request bank/insurance surety, without prejudice to the other decisions.
The final hearing for oral arguments on the appeal, initially set on 20th September 2017, has been adjourned to 13th June 2018.
Based on the legal opinions rendered on the dispute, the Group considers it possible, but unlikely, to lose the case.

Main tax audits and disputes

Pragatre S.r.l. (subsequently Pragatre SIINQ S.p.A.), merged into Aedes SIIQ S.p.A., on 10th November 2011 and 14th November 2011 received two assessment notices respectively for 2008 IRES and 2006 VAT issued by the Revenue Agency - Provincial Office of Alessandria. Both notices are the result of a tax audit performed on 24th March 2011 by officials of the Fraud Protection Service of the Regional Office of Piedmont, the outcome of which was formalized in the minutes dated 13th July. The measure challenged the deductibility, for alleged incomplete documentation, of the consideration paid to Praga Holding Real Estate S.p.A., merged into Aedes, for the designation by the latter of Pragatre SIINQ S.p.A. as the purchaser of certain properties, in performance of a preliminary nominee agreement. On 27th December 2011, the Company filed an appeal upheld by the Ex Parte Expert Witness of Alessandria following the ruling filed on 30th September 2013. On 22nd September 2015, the second-instance ruling was filed, dismissing the appeal filed by the Revenue Agency. On 21st March 2016, the Revenue Agency, represented and assisted by the Attorney General's Office, appealed to the Supreme Court, and on 22nd April 2016 the Company filed its counter-appeal.

On 10th November 2011, Pragaquattro Park S.r.l. (now Pragaquattro Center SIINQ S.p.A.) received an assessment notice for 2006 VAT, issued by the Revenue Agency - Provincial Office of Alessandria. The assessment is the result of a tax audit performed on 24th March 2011 by officials of the Fraud Protection Service of the Regional Offices of Piedmont, the outcome of which was formalized in the minutes dated 13th July. The measure challenged the deductibility, for alleged incomplete documentation, of the consideration paid to Praga Holding Real Estate S.p.A., merged into Aedes, for the designation by the latter of Pragaquattro Park S.r.l. as the purchaser of certain properties, in performance of a preliminary nominee agreement. On 27th December 2011, the Company filed an appeal upheld by the Ex Parte Expert Witness of Alessandria following the ruling filed on 30th September 2013. On 22nd September 2015, the second-instance ruling was filed, dismissing the appeal filed by the Revenue Agency. On 21st March 2016, the Revenue Agency, represented and assisted by the Attorney General's Office, appealed to the Supreme Court, and on 22nd April 2016 the Company filed its counter-appeal.

On 23rd February 2012, Novipraga S.r.l. and Cascina Praga S.r.l., later renamed Novipraga SIINQ S.p.A. and Cascina Praga SIINQ S.p.A. (the latter now merged into Aedes SIIQ S.p.A.), received two assessment notices for 2007 IRAP and 2007 IRES issued by the Revenue Agency - Provincial Office of Alessandria. The notices are the result of the so-called "shell companies" issue, pursuant to art. 30 of Law no. 724/1994. On 20th July 2012, the companies filed an appeal. On 13th March 2017, the hearing for the first instance ruling was held; with ruling 147/2017, the Ex Parte Expert Witness of Alessandria upheld the combined challenges and ordered the Agency to pay the costs of the proceedings in the amount of Euro 3,500. The Revenue Agency filed an appeal on 2nd January 2018. The companies are preparing their counterarguments for the court appearance.

On 3rd December 2012, Praga Holding Real Estate S.p.A., merged into Aedes, received two assessment notices for 2007 VAT and 2007 IRES, notified by the Revenue Agency - Provincial Office of Alessandria. Additionally, on 4th December 2012, an assessment notice was served for 2008 IRES. The assessment notices for 2007 and 2008 IRES refer mainly to the disputed applicability of the participation exemption (PEX) to the disposal of investments held by Praga Holding, while the notice for VAT refers mainly to the non-recognition of receivables transferred to the Group VAT settlement by Novipraga and Cascina Praga, as they are considered "shell companies". The appeals were filed on 30th April 2013, following negotiations to reach tax settlements. The Ex Parte Expert Witness of Alessandria, with ruling 89/05/14 filed on 26th February 2014, voided the assessment notices for 2007 and 2008 IRES, considering the PEX regime applicable, and confirmed the assessment notice for 2007 VAT declaring, however, the penalties applied therein inapplicable. On 10th October 2014, the Revenue Agency appealed as did Praga Holding in relation to the 2007 VAT assessment alone; the discussion of the appeal for 2007 VAT has been repeatedly postponed at the request of the parties and has been adjourned to a new date, with the first requesting party tasked with promptly reporting the outcome of the conciliation.

On 4th December 2012, Praga Construction S.r.l. (now Praga Res S.r.l.) received an assessment notice for 2007 VAT, notified by the Revenue Agency - Provincial Office of Alessandria. The assessment is the result of the disputed admission of Praga Construction to the Group VAT settlement procedure for 2007, as the company was set up in 2006. The company filed an appeal on 30th April 2013. With the ruling delivered on 11th December 2013 and filed on 26th February 2014, the Ex Parte Expert Witness of Alessandria upheld the assessment notice, declaring, however, inapplicable the penalties imposed by the above ruling. Both Praga Construction S.r.l. and the Revenue Agency have filed an appeal against the ruling. The discussion of the appeal has been repeatedly postponed at the request of the parties, and was adjourned on 11th July 2017, with the first requesting party tasked with promptly reporting the outcome of the conciliation.

On 12th October 2017, Pragaotto S.r.l. and Aedes SIIQ S.p.A. (the latter jointly and severally liable) received an assessment notice for 2012 IRES issued by the Revenue Agency - Provincial Office of Alessandria. Additionally, on 17th October 2017, Pragaotto S.r.l. received an assessment notice for 2012 IRES and 2012 IRAP. The notices stem from the so-called "shell companies" issue, pursuant to art. 30 of Law no. 724/1994, and follow an invitation served by the Office on 22nd September 2014, requesting clarification on the reasons for the exclusion of the verification of operations. The negotiated settlement of the tax assessment having failed, the companies will file an appeal. Additionally, on 28th December 2017, the Revenue Agency - Provincial Office of Alessandria filed a Motion for the Adoption of Precautionary Measures pursuant to art. 22, paragraphs 1, 2 and 3 of Legislative Decree no. 472/97 and art. 27, paragraphs 5, 6 and 7 of Decree-Law no. 185/08, converted with amendments by Law no. 2/09, in relation to the tax assessment notices that had been issued. The company has filed defensive pleadings against this motion, holding that there is no prima facie case and no periculum in mora. A hearing has been set for 19th March 2018, before the Alessandria Provincial Tax Commission in relation to the motion for precautionary measures.

2.14 Corporate governance and direction and coordination activities

Information on the corporate governance system of Aedes SIIQ S.p.A. is shown in the Report on Corporate Governance and Ownership Structure, approved by the Board of Directors at the Meeting held on 14th March 2018 for the approval - among other things - of the draft financial statements and the consolidated financial statements at 31st December 2017. The Report provides a description of the corporate governance system adopted by the Company and its concrete terms of participation in the Corporate Governance Code for Listed Companies prepared by Borsa Italiana S.p.A., in compliance with the requirements under art. 123 bis of Legislative Decree no. 58 of 28th February 1998.

The Report - to which reference is made - has been published in accordance with the procedures provided by law and the regulations in force, and is available at the registered office, on the Company website www.aedes-siiq.com, and on the authorized dissemination and storage mechanism 1Info at www.1info.it.
The following is a summary of the key features of the corporate governance of the Company.

DIRECTION AND COORDINATION ACTIVITIES

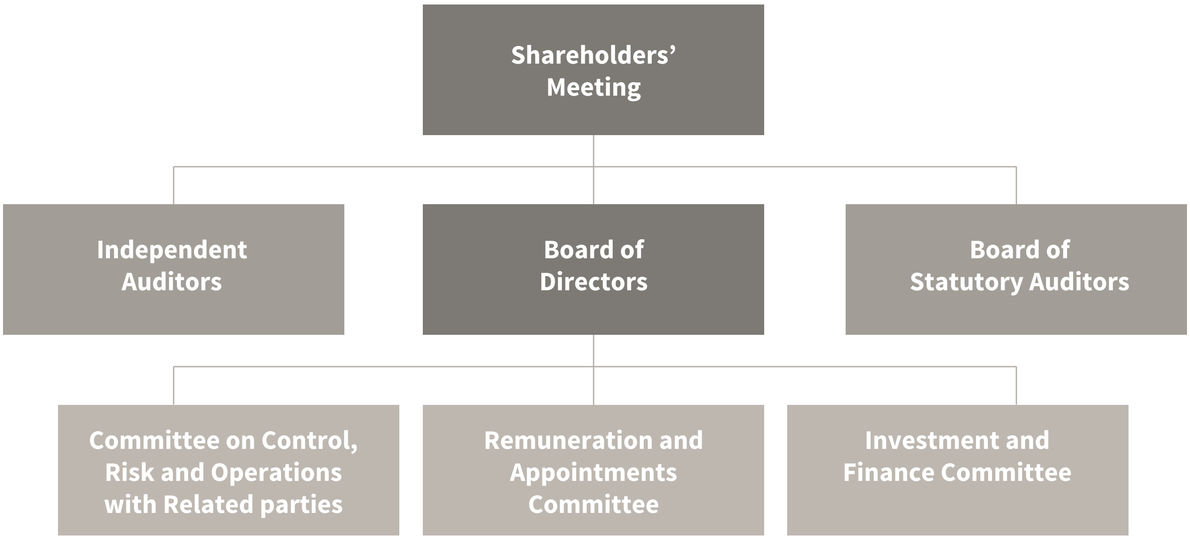
Aedes SIIQ S.p.A. is subject to the direction and coordination activities, pursuant to art. 2497 and ensuing articles of the Italian Civil Code, of Augusto S.p.A., which holds the *de iure* control over the Company.

TRADITIONAL OR "LATIN" CORPORATE GOVERNANCE SYSTEM

The corporate governance of Aedes SIIQ S.p.A. is based on the traditional system, the so-called "Latin model"; the company bodies are:

- the Shareholders' Meeting, called to resolve in ordinary and extraordinary session on the matters attributed to it by law and the Company By-laws;
- the Board of Directors, vested with full powers for the ordinary and extraordinary management of the Company, with the authority to take all the actions it deems necessary for the implementation and achievement of the corporate object, excluding only those reserved by law to the Shareholders' Meeting, and including the powers pursuant to art. 2365, par. 2, of the Italian Civil Code;
- the Board of Statutory Auditors, vested with the tasks of overseeing compliance with the law, the principles of sound governance, the adequacy of the administrative-accounting system and of internal controls, pursuant to Legislative Decree no. 58/98 and Legislative Decree no. 39/2010.

Additionally, in compliance with the provisions of the Corporate Governance Code, the following bodies have been established within the scope of the Board of Directors: (i) Control, Risk and Related Party Transactions Committee and (ii) the Remuneration and Appointments Committee. Both Committees have advisory roles with the power to formulate proposals. The Board of Directors has also established an internal Finance and Investment Committee with advisory roles and the power to formulate proposals on investments, finance and management control.



The Corporate Governance system represents the set of standards and behavioural guidelines adopted by Aedes SIIQ to ensure the efficient and transparent operation of the governing bodies and the company's control systems. Aedes SIIQ, in developing its traditional governance structure, has adopted the principles and criteria recommended by the Corporate Governance Code for Listed Companies issued by Borsa Italiana.

THE BODIES

Board of Directors

The Board of Directors currently in office was appointed by the Shareholders' Meeting held on 10th June 2015, which set the total number of Directors at 9 and established a three-year term of office, therefore, until the date of the Shareholders' Meeting called to approve the financial statements for the year ending 31st December 2017.
The Shareholders' Meeting held on 10th June 2015 appointed the Board of Directors in the persons of: Carlo Alessandro Puri Negri, Benedetto Ceglie, Giuseppe Roveda, Roberto Candussi, Giacomo Garbuglia, Dario Latella, Annapaola Negri-Clementi, Giorgio Robba and Serenella Rossano. The Shareholders' Meeting appointed Carlo Alessandro Puri Negri as Chairman of the Company. The Meeting of the Board of Directors held on 11th June 2015 appointed Benedetto Ceglie as Vice Chairman and Director in charge of the internal control and risk management system, and confirmed Giuseppe Roveda as Chief Executive Officer.
The Shareholders' Meeting held on 27th April 2016 appointed Adriano Guarneri as Director, co-opted by resolution of the meeting of the Board of Directors held on 18th December 2015, following the resignation of Director Roberto Candussi.

At its Meeting on 11th June 2015, the Board of Directors appointed the members of its internal Committees; the Committees are currently made up as follows:

(i) the Control, Risk and Related Party Transactions Committee is made up of three non-executive and independent Directors: Dario Latella (Chairman), Annapaola Negri-Clementi and Serenella Rossano;
(ii) the Remuneration and Appointments Committee is made up of three non-executive and independent Directors: Dario Latella (Chairman), Annapaola Negri-Clementi and Serenella Rossano.

The Investment and Finance Committee is currently made up of Directors Giacomo Garbuglia (Chairman), Annapaola Negri-Clementi and Adriano Guarneri, who was appointed by the Board of Directors on 27th January 2016.

Board of Statutory Auditors

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting held on 10th June 2015 for a three-year term, until the date of approval of the financial statements for the year ending 31st December 2017.

The Board of Statutory Auditors is composed as follows: Cristiano Agogliati (Chairman), Fabrizio Capponi and Sabrina Navarra, Standing Auditors, Giorgio Pellati, Roberta Moscaroli and Luca Angelo Pandolfi, Alternate Auditors.

Art. 18 of the Company By-laws is intended to ensure that the Chairman of the Board of Statutory Auditors is appointed by the minority, drawn from the list obtaining the second highest number of votes.

The Chairman of the Board of Statutory Auditors Cristiano Agogliati and the Alternate Auditor Luca Angelo Pandolfi were drawn from the list submitted by the minority shareholder Itinera S.p.A., while the other Statutory Auditors were drawn from the list submitted by the shareholder Augusto S.p.A..

Independent Auditors

Deloitte & Touche S.p.A. is the company appointed to perform the statutory audit of the financial statements of Aedes SIIQ S.p.A. and of the other subsidiaries, as resolved by the Ordinary Shareholders' Meeting held on 10th June 2015. The appointment will expire on the approval of the financial statements for the year ending 31st December 2023.

2.15 Other information

RESEARCH & DEVELOPMENT

The Group companies did not carry out, strictly speaking, any research and development activities in the year.

TRANSACTIONS BETWEEN GROUP COMPANIES AND RELATED PARTIES

The transactions generally undertaken by the Aedes Group with related parties, namely Aedes subsidiaries, joint ventures and associates (so-called “Intragroup”), and transactions with other related parties other than Intragroup (so-called “Other Related Parties”), consist mainly in administrative, property and technical services conducted at normal market conditions, in addition to the loans granted by Group companies to their related companies, which bear interest at rates generally applied to similar transactions.
Transactions with related parties were carried out and are carried out at market conditions in compliance with the regulations specifically adopted by the Company.
In 2017, the Company reported net costs of Euro 1,014 thousand, arising from transactions with other related parties, mainly for property services on a number of development projects and for lending transactions undertaken by the Parent Company.
The effects of transactions with related parties are shown in the Statement of Financial Position, the Income Statement and in the relevant Explanatory Notes.
Dealings with Group companies and other related parties show no atypical and/or unusual transactions during the reporting period.

ATYPICAL OR UNUSUAL TRANSACTIONS

In 2017, no atypical and/or unusual transactions were carried out by the Group[1].

[1] Under Consob Communication of 28th July 2006, which defines atypical and/or unusual transactions as transactions which, by significance/relevance, nature of the counterparties, object of the transaction, transfer pricing method and timing of the event, may give rise to doubts regarding: the accuracy/completeness of the information in the financial statements, conflicts of interest, safeguarding of company assets, and the protection of minorities.

PROCESSING OF PERSONAL DATA (LEGISLATIVE DECREE NO. 196 OF 30 JUNE 2003, AND EU REGULATION 679/2016)

Following entry into force of General Data Protection Regulation EU 679/2016 and in view of its application as from 25th May 2018, Aedes has embarked on a path of alignment to achieve compliance by the first quarter of 2018. Along this path, Aedes will take the technical, organizational and procedural steps required to guarantee compliance with the principles and obligations set out in the Regulation, and will continue to implement the necessary measures to comply with the organizational requirements under Legislative Decree no. 196 of 30th June 2003. Aedes will monitor regulatory developments expected in the quarter in order to assess further compliance activities. In compliance with both regulations in effect, Aedes undertakes to identify any new risks that may arise regarding confidentiality, integrity and availability of personal data, to oversee the status of previously identified risks, to assess the effectiveness and efficiency of the security measures taken to mitigate identified risks, and to draw up all the necessary documentation in this regard.

CERTIFICATION PURSUANT TO ART. 2.6.2 OF THE REGULATIONS OF THE MARKETS ORGANIZED AND MANAGED BY BORSA ITALIANA S.P.A.

As regards the provisions of art. 2.6.2, par. 9 of the Regulations of the Markets organized and managed by Borsa Italiana S.p.A., the Board of Directors of Aedes SIIQ S.p.A. certifies the fulfilment of the conditions set out under art. 16 of the Regulations on markets adopted by Consob Resolution no. 20249 dated 28th December 2017 (formerly art. 37 of Consob Regulations 16191/2007).
As regards the provisions of art. 2.6.2, par. 8 of the Regulations of the Markets organized and managed by Borsa Italiana S.p.A., it is clarified that Aedes SIIQ S.p.A. does not control companies incorporated under and governed by the laws of countries outside the European Union.

RIGHT TO OPT-OUT OF THE OBLIGATION TO PUBLISH A DISCLOSURE DOCUMENT IN THE EVENT OF RELEVANT TRANSACTIONS

Mention should be made that, pursuant to art. 3 of Consob Resolution 18079 of 20th January 2012, the Meeting of the Board of Directors of the Company held on 2nd August 2012 resolved to make use of the derogation under art. 70, par. 8 and art. 71, par. 1-bis, of Consob Regulation 11971/99 (as subsequently amended and supplemented) as from the date of their entry into force (6th August 2012).

2.16 Reconciliation between Parent Company equity and results and Group consolidated equity and results

(Euro/000)	31/12/2017	
	Net result	Equity
Balance per Parent Company financial statements	**3,178**	**289,876**
Effect of change and of standard use of measurement criteria within the Group net of tax effects:		
- Measurement at equity of companies recorded at cost in the financial statements	(543)	2,000
Elimination of carrying amount of consolidated equity investments:		
Equity and pro rata result for the year of consolidated companies	3,599	17,966
Allocation of differences to the assets of consolidated companies and relating amortization:		
- Property	4,221	(211)
- Inventory	(258)	(50)
Effect of other adjustments:		
- Other adjustments	(374)	(179)
- Deferred taxes	(160)	3,799
- Elimination of dividends	0	0
Balance per consolidated financial statements – Group share	**9,663**	**313,201**
Balance per consolidated financial statements – Minorities	**(287)**	**(385)**
Balance per consolidated financial statements	**9,376**	**312,816**

2.17 Business outlook

In 2017, a year devoted primarily to the disposal of part of the non-strategic portfolio, the gradual refinancing of the property portfolio, the acquisition and enhancement of rented assets, further progress on major development projects intended to strengthen the portfolio of rented assets, consistent with the SIIQ/REIT strategy and the updating of the Plan, the Group basically fulfilled these targets.

Specifically:

- the town-planning agreement for the Caselle retail project has been drawn up and all applications relating to the building permits have been submitted;
- the acquisition and ensuing merger of Retail Park One S.r.l. into Novipraga SIINQ S.p.A. pushed forward the development of Phase C of the Serravalle Retail Park;
- property acquisition activities continued with the acquisition of Towers C3 and E5 in Via Richard, Milan;

- the acquisition of 100% of the units of the Petrarca Fund was finalized, enabling further integration and synergies of its portfolio with the development and marketing activities of Aedes SIIQ S.p.A.;
- the agreement for investment in "The Market", San Marino, was signed. The agreements include, *inter alia*, a call option granted to Aedes for the purchase of the entire project, exercisable in 2022 at market value;
- investments and real estate inventory were sold, generating income of Euro 10.4 million.

With regard to the SIIQ/REIT regime, and in light of the financial position and results of operations of the Parent Company at 31st December 2017, the second reference year for verifying the parameters set by the Special Regime of SIIQs/REITs, mention should be made that the asset and profit requirements were met a year ahead of the legally-prescribed grace period.

Upon publication of the consolidated half-yearly report (2nd August 2017), the Company also issued its guidance to 2023 on overall investment and performance objectives. These objectives remain unchanged. Whether or not they are fully or partly achieved also depends on factors outside the Company's control, such as the economic cycle, trends in the property market, trends in the accessibility of credit and trends in capital markets.

Management will continue to pay the utmost attention to market opportunities, planning the further growth of the Group in the best possible way.

2.18 Proposed allocation of profit for the year

Shareholders,

we submit for your approval the financial statements of Aedes SIIQ S.p.A. for the year ended 31st December 2017, which show a profit of Euro 3,178,014, which we propose to carry forward, without prejudice to the obligations required by law.

Milan, 14th March 2018

For the Board of Directors

The Chairman
Carlo A. Puri Negri

3 SUSTAINABILITY REPORT

3.1 Aedes Group approach to sustainability

Commercial Property Company	**Ethical conduct**
Compliance	**Material topics**

Established in 1905 and listed on the Milan Stock Exchange since 1924, Aedes SIIQ is a leading property company operating in Italy and positioned as a Commercial Property Company, developing its property assets through investments in the retail and office segment.
In keeping with this strategy, Aedes SIIQ has a well-structured shareholder base and a solid ethical system based on a sustainable business from an operating, financial, social and environmental perspective. This system represents a set of dynamic rules constantly oriented towards the incorporation of best practices at European level to be followed by personnel.
The ethical conduct of Aedes SIIQ is hinged upon the Code of Ethics and compliance with its values, in which it recognizes and bases its activity:

Compliance with laws	Compliance with current laws and regulations is considered an essential standard for the Aedes SIIQ Group: it is necessary to comply with the regulations of the legal system (domestic, transnational or foreign) and refrain from breaching laws or regulations.
Professionality and spirit of collaboration	Mutual and professional collaboration between people is one of our essential values. For the success of the Group it is essential to work with the utmost effort and undertake responsability for one's duties.
Integrity	Group business is based on transparency and moral integrity, each collaborator must operate based on the values of honesty, fairness and good faith.
Dignity and equality	Interpersonal relationships are conducted with respect for personal dignity, private life and personality rights of all individuals. The Group considers these rights fundamental and has zero tolerance for discrimination of any kind.
Traceability	To guarantee a healthy and sound business, each collaborator ensures the traceability of all their actions and transactions, saving the necessary documents, in order to be able to verify, at any time, the reasons and characteristics of their work.

Business risks and uncertainties could impact negatively on the Group's strategy and goals, so it is vital to put in place legal protection and solid structures to manage the risks promptly and proactively.

Organizational, Management and Control Model pursuant to Legislative Decree no. 231/2001
As required by Legislative Decree no. 231/2001, Aedes SIIQ S.p.A. has put in place its own Organizational, Management and Control Model. This is a tool grounded upon the values complied with by the Group, thanks to constant monitoring and updating carried out by the Supervisory Body.
The model has the purpose of setting up a prevention and control system to reduce the risk of committing an offence. In addition to the total involvement of personnel through training and refresher programs, the model aims to provide full external transparency to ensure knowledge of the regulations to all Aedes SIIQ stakeholders.
Against this legislative backdrop, the Supervisory Body has the key responsibilities for exercising controls and the authority to initiate, coordinate and oversee implementation of the Model across the Group.

The internal control system has been strengthened with the adoption of the organizational model (hereinafter also the "Organizational Model" or "Model 231"), approved by the Board of Directors on 12th February 2004, and updated, most recently, on 21st December 2016.
The Model 231 adopted by the Company is structured into the following sections:

- a General Section, which outlines the objectives, structure lines and implementation procedures of the Organizational Model;
- a Special Section, divided into chapters by type of offence, which describes the crimes under Legislative Decree no. 231/01 considered significant as a result of the risk assessment work, lays down certain rules of conduct directly applicable to Model 231 recipients, sets standards for the preparation of the procedures in the business areas involved and, finally, identifies areas where the risk of the offences under Decree 231 is greater ("sensitive areas"), identifying the functions involved.

The Special Section, therefore, acts as a link between the principles ratified in the General Section and the company procedures put in place to watch over the "offence-risk".
It should be noted that Praga Res S.r.l. too, identified in 2017 as having strategic relevance for the Group, has adopted its own Organizational Model.
Lastly, updates have started on the Organizational Model to take account of both the organizational and business developments of the Company, and the new laws on "predicate offences".
On 11th June 2015, the Board of Directors made use of the option under art. 6, par. 4-bis, of Legislative Decree no. 231/2001, and assigned the Board of Statutory Auditors the functions of Supervisory Body pursuant to art. 6, par. 1, lett. b) of the above Decree. Effective as from 11th June 2015, the members of the Supervisory Body of Aedes SIIQ S.p.A. are Cristiano Agogliati (Chairman of the Board of Statutory Auditors), Sabrina Navarra (Standing Auditor) and Fabrizio Capponi (Standing Auditor).

The following documents form an integral part of the Model:

Disciplinary and sanction system

To be applied in the event of violation of the Model.

Code of ethics

It contains all of the rights and duties with which the recipients of Model 231 are expected to comply in performing their activities.

Delegation and authorisation system

All documents that seek to describe and assign responsibilities and/or duties to those who work within the entity in the Areas with Risk of Offence (i.e organisation charts, service orders, job descriptions, function charts, etc.).

System of procedures, protocols and internal controls

To ensure adequate transparency and to disclose the decision-making and financial processes and types of behaviour that must be maintained by the recipients of the Model 231 operating in the Areas with Risk of Offence.

Further details on the Organizational Model pursuant to Legislative Decree 231/2001 of the Aedes Group are available on the website

Code of Ethics of Aedes SIIQ

The Aedes Code of Ethics acts as a cornerstone in the regulation of Group companies, an expression of the legal commitments and responsibilities inherent in the business.

The Code of Ethics sets out the company values in a clear and transparent manner, highlighting the set of rights, duties and responsibilities of all those who, for whatever reason, work for the Aedes Group companies.

The Code of Ethics is applied to all the Group's internal and external dealings; its relationships with partners, suppliers, and personnel are, in fact, governed by specific documents.

The project to review all the Company procedures is currently being finalized. This also included the preparation of a procedure on services procurement, a procedure on relations with public administration, and a procedure on the management and disbursement of gifts, presents and sponsorships. The reviews were carried out in the light of changes to the organizational structure and are expected to come into force in 2018.

Mention should be made that no legal sanction was imposed in 2017 for anti-competitive behavior, anti-trust and monopoly practice.

With regard to the Procedure for the Management and Provision of Gifts, Presents, and Sponsorships, the Aedes Group has highly stringent rules in place and forbids anyone to:

- Promise or pay sums of money or consideration in kind or other benefits to third parties such as, for example, clients, suppliers, public sector organizations or public institutions with the aim of promoting or favouring the interests of the Company, even as a result of unlawful pressure;
- Grant gifts, presents, donations and company giftware that are not adequately justified within normal courtesy, or that have the purpose of promoting or favouring the interests of the Company or that could engender conflicts of interest;
- To make use of any forms of aid or contributions which, disguised as sponsorships, assignments, consulting or advertising have, instead, the purposes indicated above as being forbidden;
- Grant gifts, presents, donations and company giftware or sponsorships that could engender conflicts of interest.

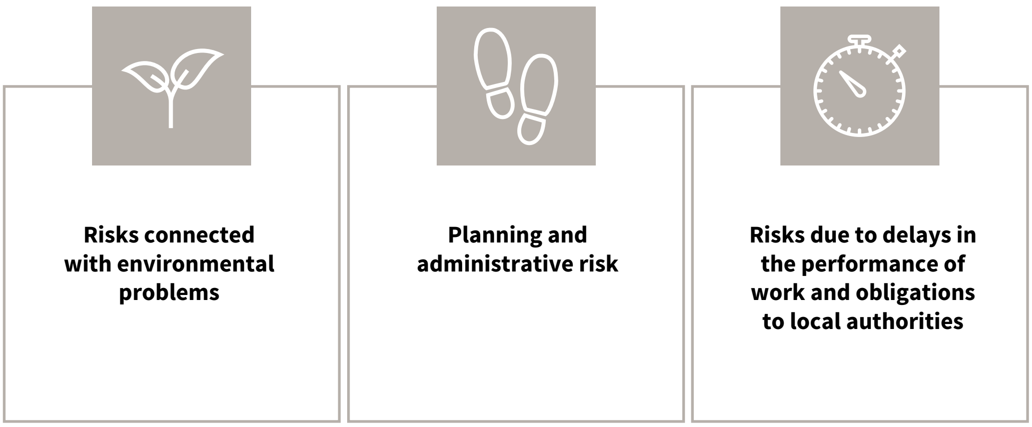
With regard to managing dealings with Public Administration, the Group Procedure states that, during inspections, constant support must be provided by the relating Head of Department. Additionally, with regard to applications for obtaining permits and programme/planning agreements from public authorities, the certified e-mail system is used for the transmission of documents.

As at the date of this document, the Group does not have specific systems in place for **managing complaints**. However, as regards compliance, it is noted that on 31th October 2017 Fih S.a.g.I. filed an action before the Regional Administrative Court of Piedmont against the Municipality of Caselle Torinese and SATAC SIINQ S.p.A. for the annulment of the documents that led to the signing of the Town-Planning Agreement between the Municipality of Caselle Torinese and SATAC SIINQ S.p.A. on 30th March 2017.

SUSTAINABILITY RISK ANALYSIS

In 2017 the Aedes Group continued its corporate social responsibility programme, which began in late 2016. Building on last year's experience, it has gained awareness on how its business is directly involved in the three domains of sustainability: economic, social and environmental. This awareness grew stronger in 2017, leading to an improvement in recognizing the sustainability implications of its core business activities. Today, the principles of responsibility form an integral part of company procedures and of the internal risk assessment process.

MAIN SUSTAINABILITY RISKS



In 2016, the process had kicked off with a preliminary exhaustive analysis of Aedes SIIQ business risks, in order to examine them in terms of sustainability and understand the main effects on Group vulnerabilities; the results identified no risks that could impact significantly on business. These topics were monitored continuously and scrupulously throughout 2017, in order to ensure the necessary continuity and detect any deviations.

Regarding **town-planning and administrative risk**, the business licences conform to current planning instruments and have valid commercial licences. Additionally, with regard to works, building permits have been issued without any significant problems, in compliance with the procedures. While no known causes of actual risk exist at this time, the development projects, nonetheless, remain subject to the assessments of the competent authorities involved in administrative proceedings.

The business of Aedes SIIQ is closely tied to dealings with local government, and one of the main risks identified involves **delays in work and in the fulfilment of the obligations towards local governments**. The push back of deadlines from the schedule shared with the local governments, in fact, could engender adverse effects on the financial position of the Group, also considering the possibility of their leading to enforcement actions on a number of the sureties given, with potential payment of infrastructure charges.

Lastly, in accordance with environmental sustainability, monitoring of the **risks associated with environmental topics** represents a crucial point. From this perspective, the Group applies, to its properties and property developments, the international standards for environmental management in order to reduce the environmental risks associated with its activities.

Despite such attention, Aedes SIIQ could be exposed to risks of liability for environmental damage, with a possible impact on its financial position and results of operations. While no environmental issues have arisen from intangible fixed assets to date, with a view to preventing risks, in 2017 the Group initiated an ad hoc waste disposal programme within the area held by one of the Group companies.

For the full monitoring of Group risks and activities, the Board of Directors of Aedes SIIQ has set up an internal **Control, Risk and Related Party Transactions Committee**, in accordance with the corporate governance requirements laid down by the Italian Stock Exchange.

Composed of independent non-executive members, the Committee has been entrusted with consultative and proposal-making functions, together with those set out in the Corporate Governance Code.

MATERIALITY ANALYSIS

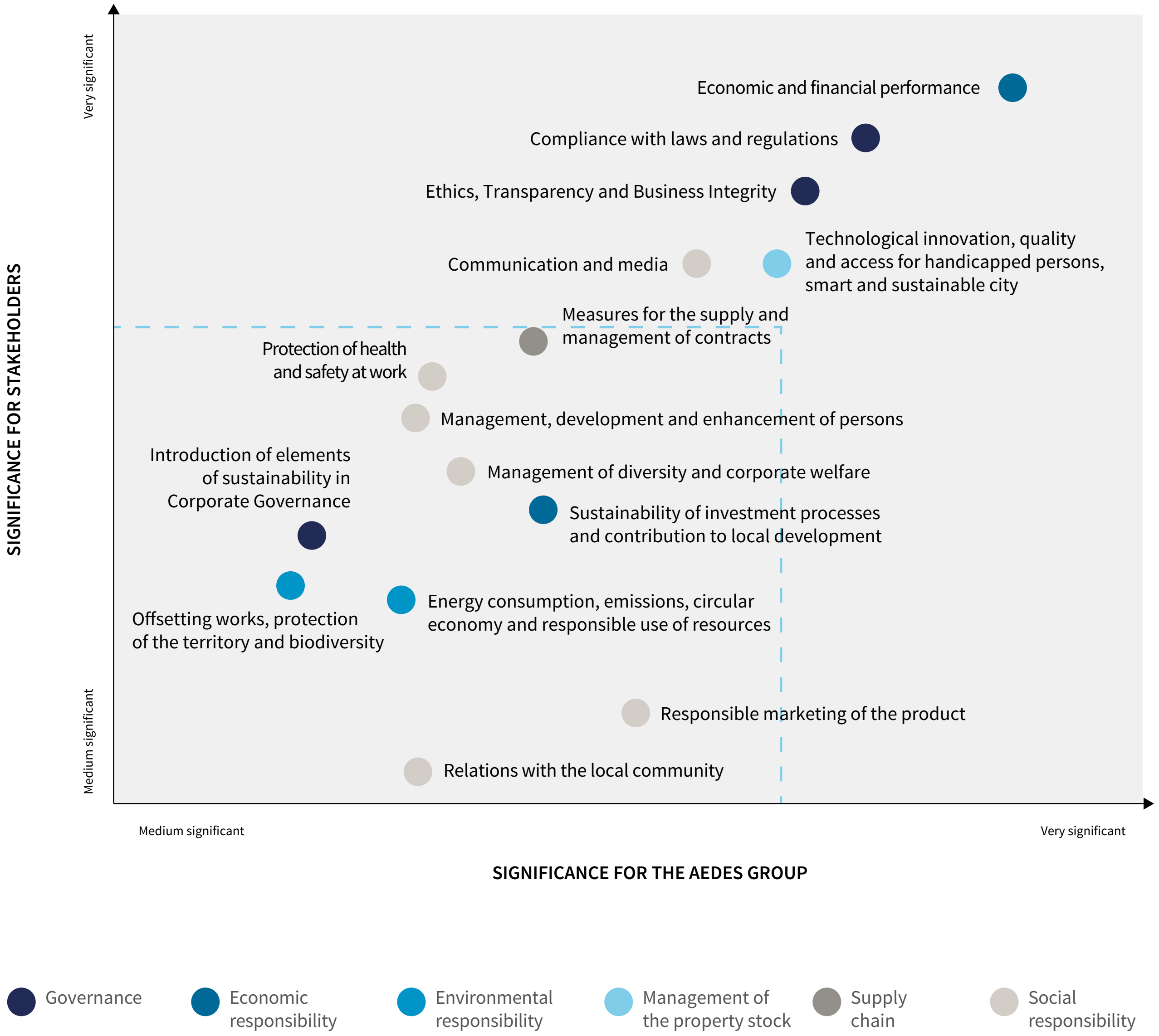
In 2017, the Aedes Group checked that the materiality analysis carried out at the end of 2016 was still up to date. The materiality analysis has the purpose of identifying strategic priorities not only in the economic, but also in the social and environmental spheres, in order to define the topics to be reported in the Sustainability Report, in accordance with the standards adopted, the GRI Sustainability Reporting Standards (2016).

The process leading to the drafting of the Materiality Matrix shown below is structured in **three main phases**:

- the relevant issues have been identified through the analysis of internal and external documentation, taking account not only of the GRI Guidelines, the EPRA Guidelines and industry-specific publications, but also of the benchmark with main peers and competitors.
  In December 2016, the Group's first-line management received a questionnaire which deals thoroughly with each issue considered relevant in the construction and real-estate field: the work group was asked to identify priorities, by assigning scores to the different issues identified and the main matters to report in the area of sustainability, irrespective of the organization's current ability to provide comprehensive and complete reporting.
  The materiality analysis took account not only of the views of Aedes SIIQ, but also of the perspective of the stakeholders, asking them to assign scores to the issues and identify themselves with all those individuals or groups of individuals who influence or are influenced by Group activities;
- the issues that received an average rating equal to or greater than 3, on a scale of 1 to 5, are accounted for in the Report, together with other topics which, while not having exceeded the threshold of high significance, are considered important in the relationship with the various stakeholders;
- two changes were made in 2017 from last year's matrix. Firstly, it was decided to move the item "Technological innovation, quality and accessibility of buildings, smart and sustainable city" to the more significant quadrant – both for the Group and for its stakeholders.

The decision was due to growing focus on these topics, which have led to significant choices in the techniques adopted to carry out the company's projects, as described in greater detail below. The second change concerned the item "Communications and media" item, which was also moved to the more significant quadrant as it is a fundamentally important activity for the Aedes Group, which firmly believes in transparent communication and the need to communicate freely with its stakeholders.

THE MATERIALITY MATRIX OF THE AEDES GROUP



The materiality analysis is, by definition, an evolutionary process as it identifies the areas in which the Aedes Group needs to address its own decisions; as the context develops and with the gradual involvement of interest groups, the assessment of risks and opportunities related to the sustainability scenario, and consequently the **materiality matrix**, will be subject to periodic review.

3.2 Economic responsibility

Distributed value	**Transparent communication**
Investor Relations	**Sectorial events**

ECONOMIC VALUE

The generation of economic value represents the wealth produced by the Aedes Group, which is distributed in various forms to stakeholders.
The Aedes Group's main objective is to create a steady and strong economic status in order to achieve solid financial balance. On 2nd August 2017, the Board of Directors of Aedes SIIQ approved the updates to the guidelines of the Business Plan disclosed to the market on 28th September 2016, and authorized the Chief Executive Officer and the Chairman to assess their actual feasibility on the markets.

In 2017, the Company embarked on a path of growth and consolidation of a "commercial" portfolio, focusing on new generation retail and office assets, with the aim of maintaining, in the medium and long term, a property portfolio capable of generating recurring cash flows typical of the SIIQ/REIT model, with returns above the industry average. Under the 2018-2023 Plan, Aedes intends to continue this process, while also increasing its focus on social and environmental topics in all its activities.
Specifically, the Group will continue to acquire existing revenue-generating properties and property portfolios, including through contributions in kind, located mainly in North and Central Italy, and to develop a new generation of shopping and leisure centers through the pipeline of projects already in the portfolio. Additionally, the Group will continue to dispose of assets deemed no longer strategic, and will assess taking further steps to strengthen its capital structure.

Strategic Plan
Following the updates to the Guidelines of the 2017-2021 Business Plan, the Company has identified the short and medium-term objectives related to the 2018-2023 scenarios.
Specifically:

- Financial balance from leasing in 2018.
- Property Gross Asset Value in 2023 of approximately Euro 1.6 billion, with the creation of in-house developments and acquisition of revenue portfolios.
- Loan To Value equal to approximately 50%.
- Occupancy rate >95%.

Occurrence of the assumptions underlying the 2018-2023 business plan scenarios, hence their full or partial fulfilment, will also depend to a great extent on factors beyond the control of the Company. The degree of uncertainty increases as the time span of forecasts widens, above all as regards the performance of the economy and of the markets (the property market in particular).

In 2017, the economic value generated by the Aedes Group amounted to **Euro 37.7 million**, which represents the total wealth created by the Group and shared by the different stakeholders.

Distribution of the economic value generated by the Aedes Group				
	2017		2016	2015
(Euro/000)	Values	%	Values	Values
Economic value generated by the Group	**37,695**		**49,285**	**39,732**
Revenue from sales and services	38,881		42,659	27,506
Contributions	-		-	-
Contributions to investments financed	-		-	-
Other income	1,319		2,680	12,304
Financial income	940		937	1,058
Result of companies measured at equity	- 3,445		3,009	- 1,136
Economic value distributed by the Group	**49,145**	**130.4%**	**46,374**	**35,494**
Reclassified operating costs	**35,660**	**72.6%**	**39,528**	**25,380**
Costs for raw materials and services	25,385		35,444	24,227
Other reclassified operating costs	10,320		4,126	1,195
Costs for investments financed	-		-	-
Remuneration to staff	**5,920**	**12.0%**	**5,350**	**4,603**
Remuneration to lenders	**7,100**	**14.4%**	**4,525**	**5,334**
Remuneration to shareholders	**-**	**0.0%**	**-**	**-**
Remuneration to Public Administration	**420**	**0.9%**	**- 3,071**	**135**
Remuneration to the Community	**45**	**0.1%**	**42**	**42**
Economic value retained by the Group	**- 11,450**	**-30.4%**	**2,911**	**4,238**
Depreciation, amortization and fair value adjustments	- 20,826		- 27,303	1,882
Result for the year allocated to reserves	9,376		30,214	6,120

CLIENT RELATIONS AND RESPONSIBLE COMMUNICATION

Ethics and communication are the cornerstones of the healthy and transparent business of the Aedes Group: acting and operating in compliance with ethics means conducting business in an ethical way shared by all personnel.
A clear-cut position that is the sheer expression of the Group's values; the Company, in fact, engages periodically with its stakeholders, abiding by the principles of transparency, clarity and reliability, in an ethical and increasingly cutting-edge context.
The Group, in fact, is open to ongoing dialogue with its stakeholders, which generates greater benefits for the territory and the local community, through meetings and dedicated events capable of strengthening the values of sustainability within the Group structure.
Firstly, the Group guarantees its presence at **many of the major sectoral events** to strengthen its role within the network. These events include **"RE Italy"**, a half-year fixture organized in January and June by Monitorimmobiliare with the Italian Stock Exchange and the support of Assoimmobiliare and Federimmobiliare, dedicated to Real Estate-SIIQ/REIT Funds, Law Firms, Retail, Advisors, Investors, Services, Credit Institutions and Public Properties.
In March 2017, the Group took part in **MIPIM** - The International Property Market, the world's leading event which brings together the most influential international players from property sectors (such as offices, residential, retail, healthcare, sports, logistics and industry), held every year at the Palais des Festivals in Cannes.
In September, the Group attended **"Forum di previsioni e strategie"**, the event organized by Scenari Immobiliari in Santa Margherita Ligure. This is a key event for operators in the retail sector, giving them the opportunity to learn, get up-to-date information and exchange opinions with the various market players and companies in Italy and abroad.

Finally, in November 2017, Aedes SIIQ participated as an exhibitor at **MAPIC**, the international trade fair for the retail and shopping center sectors. Business meetings were organized during the fair with the Chairman and Chief Executive Officer, alongside Group executives and advisors. The Company presented the COM – Caselle Open Mall project, the center to be built between Turin and Caselle airport. A press conference was organized on this subject at the Company's stand to present the project. The agreement with National Geographic ensured excellent media coverage, with over 50 reports on national newspapers and websites.
Since 2016 the Group has also been a member the **European Public Real Estate Association** (EPRA) and has been actively participating in its activities.

EPRA: European Public Real Estate Association
Founded in 1999, EPRA is a non-profit organization registered in Belgium that strives to establish best practices in accounting, reporting and corporate governance, to provide high-quality information to investors and to create a context for debate and decision-making on issues that will determine the future of real estate.
The activities of EPRA reflect its mission to promote, develop and represent public real estate in Europe: the underlying goal is to promote confidence and encourage greater investment in real estate listed in Europe.

EPRA Awards 2017
The 2017 EPRA Awards were awarded following a detailed analysis of the financial statements of the 102 European real-estate companies listed on the FTSE EPRA/NAREI Developed EMEA Index at 31th March 2017, to verify the level to which they met EPRA's Best Practice Recommendations on the clarity and transparency of the information provided. Part of the award's aim is to improve the quality of financial reporting and increase transparency in the sector. Performance is evaluated by Deloitte (an independent partner of EPRA) and is divided into 6 measures:
- EPRA results
- NAV
- NNNAV
- Net Initial Yield
- Vacancy rate
- Cost ratios

The awards are divided into Gold, Silver, Bronze and Most Improved.

The Group received the **2017 EPRA BPR Gold Award** for the 2016 annual report, which the European Public Real Estate Association awards to the real-estate companies that were best at complying with the Best Practice Recommendations (BPR). Aedes SIIQ not only successfully passed all 6 performance measures (sufficient to be awarded Silver), but also scored more than 80% in the assessment. This confirmed Aedes SIIQ's exceptional compliance with the BPR, allowing it to earn the Gold award.

In addition to committing to implementing the accounting, reporting and corporate governance practices set out by the EPRA, ensuring high-quality information to investors, the Aedes Group also aligns its strategies with the **Best Practice Recommendations on Sustainability Reporting** established by EPRA to ensure that companies in the sector provide full non-financial reporting to their stakeholders. The Best Practice Recommendations pertain to two main areas: firstly, the "Sustainability Performance Measures" contained in the various sections of the report (as described in section 3.7 of this Report – "Reporting Standards Used") and, secondly, the "Overarching Recommendations", which are outlined below.

Organizational boundaries and Coverage	All information included in this Sustainability Report is accompanied by a description of the relevant reporting boundary. The information can be found in the notes or in the GRI table.
Estimation of landlord-obtained utility consumption	The information reported does not include estimates.
Third Party Assurance	The Sustainability Report is not subject to independent third-party assurance.
Boundaries – reporting on landlord and tenant consumption	The reporting boundary on consumption data only includes properties in use by Group companies.
Normalisation	This Report only discloses energy intensity based on a unit relevant to the Group: the square metre.
Segmental analysis (by property type, geography etc.)	Section 3.5 of this Report provides a breakdown of the types of properties in the Group's portfolio.
Disclosure on own offices	Section 3.5 of this Report provides details on the energy consumption of the Group's offices.
Narrative on performance	All the quantitative information contained in this Report is linked to qualitative information that provides further details and enables understanding of time trends.
Location of EPRA sustainability performance measures in companies' reports	The information for the Performance Measures is contained in the correlation table in section 3.7 of this Report.
Reporting period	This Report contains data for the two-year period 2016-2017. Where available, figures for 2015 have also been shown.
Materiality	The Materiality Matrix of the Aedes Group is provided in section 3.1 of this Report, together with a description of how the matrix was composed.

Corporate communication is a key activity for the Aedes Group, by means of which the Company discloses to the financial market and the industry all the important information they need to understand and take cognizance of the Company.
In an increasingly dynamic digital world, the Group is open to direct and interactive dialogue, and has strengthened its identity on the major social networks, communicating its vision of the future and its strategic positioning. This also contributes to engagement with and promotion of the community and local events – which is one of the most important aspects of "sustainability". The main terms of sharing and communication developed around the business are as follows:

- **Media Relations**
  Traditional press office activities envisage the sending of press releases, the organization of interviews with Top Management by financial journalists, as well as press conferences. In 2017, Aedes SIIQ strengthened its public relations activity through interviews published in industry press and national dailies with the Chief Executive Officer and the Chairman, enhancing the Group's new strategy following its switch to SIIQ/REIT status.
  A comparative analysis shows that between **2016 and 2017, the number of reports in traditional and online media increased by +290% and +151%, respectively**, referring to the press releases issued by Aedes and official interviews, not including mentions in the local Piedmontese media relating to the Serravalle Retail Park and the Serravalle Outlet. For 2018, Media Relations is aiming to consolidate and, where possible, improve its results, including through interviews with Management on corporate matters and products.

Social Networks

Aedes uses the major social networks to keep a constant spotlight on the Company's dynamics and on the property industry in general. These channels enable further circulation of Aedes's press releases, as well as articles and/or interviews regarding Top Management and the Italian Real Estate sector. To attract followers' attention to the special features of the properties in the Group's portfolio, "storytelling" initiatives have been deployed for the main properties in the "Rented" and "Development for rent" portfolios.

In 2017 there was a total of:

436 tweets

363 posts on Facebook

302 posts on LinkedIn

Beginning in May 2017, the Aedes SIIQ Group has also increased its activities on the social media pages of "La Bollina", boosting the number of interactions and posts per week. In particular, activities have focused on publicising events held by "La Bollina" during the year and distributing information about the wines it produces, while retaining a constant focus on the environment surrounding the winery.

These activities totaled:

156 tweets

117 posts on Facebook

110 posts on Instagram

Investor Relations

Investor relations gravitates around communication to analysts and institutional and retail investors (small shareholders) on the strategy and the main property and financial transactions carried out, which can help increase knowledge of the Company.

Financial communication

With a view to economic sustainability, it is crucial for the Group to strengthen its operating and financial identity, by communicating its business results to all stakeholders in a transparent manner, making it easier for them to understand the results achieved and the long-term goals.
The Group returned on the financial market in early 2016, becoming a Property Investment company listed on the stock exchange, asserting its willingness to engage constantly with the market and its rules in a transparent and structured fashion. 2017 was a year of consolidating the initial work and planning carried out in 2016.
Communications with the financial market remained active through the **Investor Relations** unit, set up voluntarily to ensure timely and direct management of relations with investors and small shareholders. Agreements were renewed to reappoint Intermonte SIM S.p.A. as the Liquidity Provider and Specialist on the Aedes share, in order to provide greater visibility to and enhance the value of the share.

As **Specialist, Intermonte SIM S.p.A.** is responsible for preparing a number of research papers each year and managing the Investor Roadshows. Accordingly, four research papers were published on Aedes SIIQ shares, setting out all the key information about the Group's business model and strategy. At the end of the year, the stock was given an "outperform" rating and a target price of Euro 0.66, highlighting the strong discount on both the stock market price and the NAV.

In 2017, there was an **increase in the number of meetings with institutional investors** organized by Intermonte SIM. Specifically, an initial event in Milan was attended by 10 Italian institutional investors, while a second event at the end of the year numbered 12 such investors. Aedes SIIQ also participated in a conference organized by Intermonte in Paris in June, holding 5 one-to-one meetings with foreign institutional investors.
The Group's strategic and business models were presented at the public events, together with an update on the main points of the 2018-2023 Business Plan and on the property and financial transactions finalized in 2017, in compliance with the short and long-term objectives set out in the Plan.
Aedes SIIQ's share performance was highly volatile. However, the market price of the share was stabilized by improved results as disclosed to the market in price-sensitive press releases, Intermonte's positive research, and news of the addition of the property sector to PIR (individual investment) schemes under the Italian Budget 2018. The share is currently trading between Euro 0.48 and Euro 0.50. Liquidity also improved, with an increase in the average volume of daily trades (between 1.5 and 3 million).

The operating and financial situation is disclosed to the outside community thanks also to the **company website**, in the "Investor Relators" section, which publishes and makes available:

- the presentations used at industry **workshops, roadshows and conference calls** to disclose results to the financial community;
- all price-sensitive press releases already published through official channels;
- the Group's financial reports, Executive Summaries and interim reports;
- all updates on the Group's property portfolio and NAV;
- all other documents, tables and graphs that have changed during the year.

The aim of providing updated information through the website – in both Italian and English – is to ensure the correct transparency and continuity of information for all stakeholders.

Executive summaries
These are documents containing content drawn from financial statements and addressed to small investors, through a specific structured dialogue with the creation of a dedicated mailbox as a direct communication channel.

3.3 Responsibility towards the community and the territory

Community and territory

Sustainable infrastructure

Business partners

Ethical and responsible reporting

CREATING VALUE AND INITIATIVES FOR THE TERRITORY

It is crucial for the Aedes Group to create value that is shared with the community in which it operates, promoting an ongoing and constructive dialogue to understand the needs and priorities of those who live the territory. Against this backdrop, it should be noted that operating costs include a generous portion dedicated to donations, sponsorships and contributions that go to the community, culture and sport.
The total amount - Euro 63,244 - increased by approximately 40% versus 2016 (Euro 45,352), proof again of Aedes's commitment towards the territory.
The amount can be broken down as follows:

- sponsorship of sporting, cultural, scientific and social events: Euro 48,044;
- contributions to the community: Euro 3,000;
- charitable donations: Euro 12,200.

The proximity to the community is witnessed specifically by the enthusiastic support of cultural and sporting initiatives organized by the local community, in particular with regard to:

- schools and training institutes;
- municipalities, such as Serravalle Scrivia and Pieve Emanuele;
- sports and cultural associations such as the Basket Club of Serravalle Scrivia, Associazione Culturale Libarna and the Italian Environmental Fund.

Aedes SIIQ is a Corporate Golden Donor of FAI

FAI is a non-profit National Foundation which, since 1975, has saved, restored and opened to the public important examples of Italian artistic heritage and natural environment.

Thanks to its proximity to the treasures of the territory, Aedes SIIQ supports the Italian Environmental Fund - FAI in its protection and enhancement of a unique heritage - the Italian territory - rich in nature, art, history and traditions.

The Group is registered with the Corporate Golden Donor programme of FAI, a decision of social responsibility to spread value to the community, enabling it to have access to great opportunities such as:

- **confidential communication tools** such as the use of the Corporate Golden Donor FAI logo in communications and a certificate of membership to exhibit within the Company;
- **possibility of living valuable experiences** thanks to four FAI membership cards, together with a hundred free tickets to visit the FAI Heritage to distribute to employees, clients and suppliers. Additionally, there is the possibility of organizing, through FAI Heritage, business events at special conditions, of making use of employee arrangements, and participating in training events or seminars organized by SDA Bocconi School of Management for FAI;
- **involvement in FAI activities** with exclusive invitations to the inauguration of newly-restored Heritage, exhibitions and events in the FAI Heritage.

Archaeological Area of Libarna

The archaeological area of Libarna is located south of Serravalle Scrivia, along the road leading to Genoa. Libarna maintains its strategic position today, as in imperial times, when the city was located along one of the main routes, Via Postumia: the archaeological area structures allow visitors to read the topographical articulation of the city, with particular regard to Imperial Roman times, witnessing the moment of maximum splendour of the site.

As sources show, in imperial times, Libarna was a rich, densely populated and extremely thriving city: the archaeological findings witness a remarkable and important economic and trade flow in the early centuries of the Empire, followed by gradual deterioration of trade beginning from the III Century AD.

Ancient Libarna was unearthed in the XIX century during the excavation works for the construction of the Royal Road of Giovi (1820-1823) and later the Turin-Genoa railway (1846-1854). Archaeological surveys have subsequently brought back to light the remains of public buildings and dwellings, which help reconstruct the urban layout of the site.

The present archaeological site is a small part of the ancient city, which occupied a much larger area.

The remains of two housing blocks, placed at the sides of the *decumanus maximus* and framed by minor *decumani* and *cardi*, can be admired. The archaeological findings from Libarna, part of which form private collections, are kept at the Museum of Antiquities in Turin and the Ligurian Museum of Archaeology in Genoa-Pegli.

Basket Club Serravalle

The Società Sportiva Basket Club Serravalle was founded in September 1972 by Mario Titolo, who was able to create a sports club by bringing together the **enthusiasm of a group of young Serravalle** residents and a number of Arquata **residents** with a past career in basketball. The team now competes in the C2 regional championship and is trained by Alessandro Ponta.

Fondazione Livorno

Formerly known as the "Fondazione Cassa di Risparmi di Livorno", this foundation was set up in 1992 to take over the assets and charitable activities carried out until then by the Cassa di Risparmi di Livorno. The foundation was launched in 1836 for philanthropic purposes.

In 2013, while maintaining the charitable foundations of the original entity, the Fondazione Cassa di Risparmi di Livorno completed the process of transformation that it underwent in the first decade of the new millennium and now goes by the name "Fondazione Livorno", with a renovated headquarters boasting new technology and IT equipment. The shortened name aims to represent the organization's new trajectory having now fully separated from the Cassa di Risparmi di Livorno, with a new logo that reflects the Foundation's desire to pursue its own projects through initiatives of great social and cultural value in its five areas of operation. It reaffirms the organization's determination to propel itself into the future, taking an increasingly practical approach to the needs of the local area and reinforcing its ties with the community. At the same time, the new branding does not ignore – but rather proudly reaffirms – its historical origins, keeping the reference to the value of savings, as symbolized by the industrious hive in the logo that the Accademia dei Floridi passed as a legacy to the Cassa di Risparmi di Livorno in 1883, and that the Foundation had inherited in 1992.

RESPONSIBLE MANAGEMENT OF TENDERS

The processes involving the **qualification and selection of business partners**, suppliers and General Contractors, are those set out by the internal procedures of the Aedes Group. Specifically, it should be noted that one of the Group's subsidiaries, Praga Res S.r.l., acts as General Contractor while also providing professional services for the property industry (Project & Construction management). General Contractor operations will end with the closure of the Serravalle work site (June 2018).

The appointment conditions usually applied envisage the so-called **integrated turnkey contract** method, namely, executive **planning** and subsequent **construction**, by means of selection through private negotiations.

The Group's business is complementary to a wide variety of activities and services, which allows interaction with multiple suppliers dealing with raw materials, manpower, technical, administrative, tax and specialist advisory.

To address the various financial and professional relations, the Group has put in place specific procedures to regulate and coordinate the **management of professional assignments to third parties**, which describe and govern the rules of conduct, the procedures and the criteria for managing such assignments, subject to the principles of transparency, fairness and traceability of the decision-making process.

As for the **management of the procurement of general goods and services**, an ad hoc procedure is in place to:

- ensure optimization of the supplier portfolio, in order to minimize the total cost of supply;
- maximize synergies of Group companies, strengthening the bargaining power with suppliers;
- ensure appropriate relations among the various company functions involved in the different procurement processes, in order to optimize the technical and commercial components relating to procurement;
- ensure the supply of materials, goods and services according to the quality and quantity set;
- ensure valid documentation for tax purposes;
- enable effective accounting, in order to ensure compliance with the statutory regulations and adequate company disclosure:
- streamline payment and storage procedures.

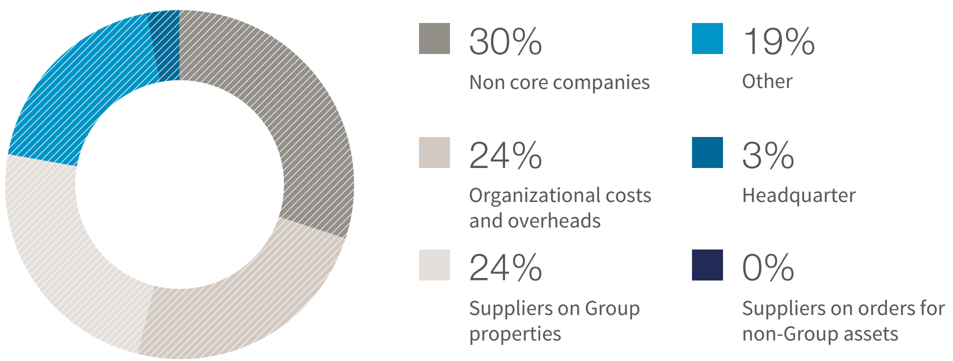
The Group has also adopted a **selection process of independent valuers** for the purpose of carrying out assessments on the property assets of the Group, which provides for specific activities in terms of personnel involvement, selection and assignment of positions, rights and obligations of the parties and frequency in the allocation of assignments.

In addition to the specific aspects, the Group's procedures provide for standards of conduct for the regulation, control and monitoring of such processes, which all the personnel must abide by, in accordance with the provisions of law and the rules of conduct contained in the Code of Ethics.

At end 2017, the Aedes Group held dealings with approximately **950 suppliers** of materials and services.

The major third-party suppliers of the Aedes Group are split up in the reporting period based on their impact on the categories below:

MAJOR THIRD-PARTY SUPPLIERS OF THE GROUP DIVIDED BY COST CATEGORIES



The major third-party suppliers of the Aedes Group can be split up by the following projects/areas of activity:

Type of project	No. of suppliers	Percentage
Non core companies	372	30%
Organizational costs and overheads	293	24%
Other	232	19%
Suppliers on Group properties	294	24%
Headquarter	34	3%
Suppliers on orders for non-Group assets	2	0%
Grand total	**1,227**	**100%**
of which inter-project suppliers	**273**	**22%**
Total suppliers	**954**	

Responsible management of the relationship with suppliers

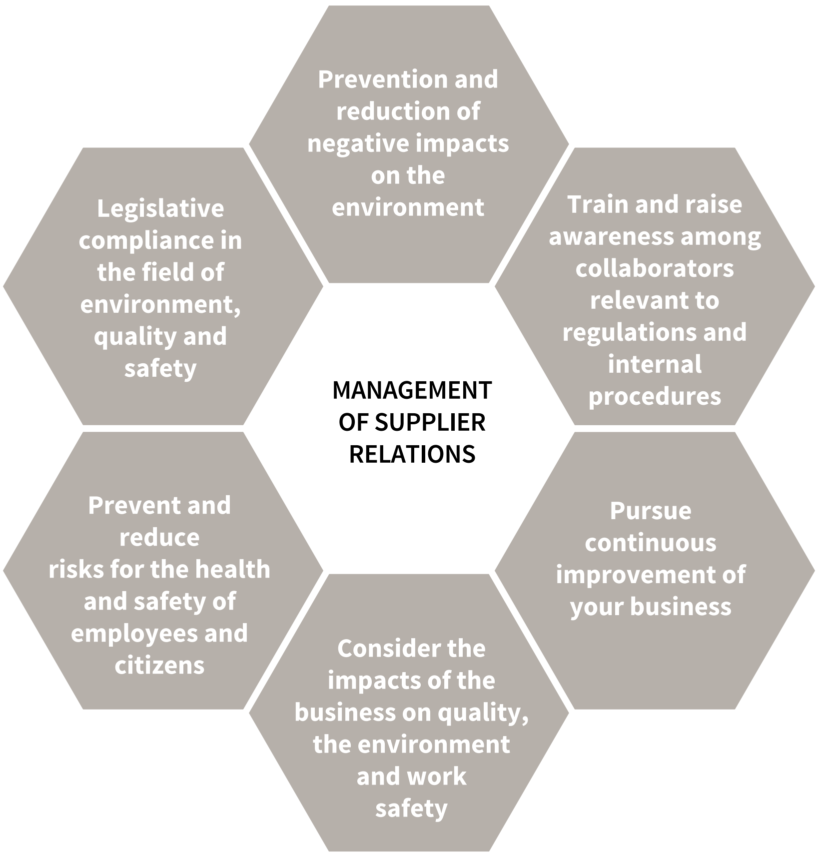
The Aedes Group promotes a participatory dialogue with all local authorities and institutions to work together to improve the quality of life of citizens and safeguard the natural heritage of the territories in which the Group operates. Such an intention is reflected in the commitment to manage **relationships with suppliers in an ethical and responsible manner**, as the choice of good partners plays a crucial role in the sustainability of the business and the territory. As part of this, the Group has for example organized meetings with industry associations in Caselle Torinese to discuss and explain the ongoing work, as well as periodic interviews with the local press to ensure transparency and correct information.

The assessment and selection of suppliers is based on the **analysis** of their **potential** to meet the supply requirements including in compliance with the laws on health and safety in the workplace. This is a so-called **"preventive"** assessment, based on specific technical criteria such as the possession of the SOA Quality Assurance/Attestation Certification for categories of interest, documentation on compliance with Occupational Hygiene and Safety Law and specific qualifications, imposed by the historical background of the relationship and by direct assessment. To confirm relationships, overall assessments are carried out annually to verify the continuing satisfaction of the above criteria.

For this reason, the qualification and assessment of suppliers are regulated by the verification of technical, economic and organizational quality requirements, by compliance with environmental and safety laws and with corporate social responsibility, including acceptance of the Group's Code of Ethics.

This intent, which is tied to the aim of developing local sustainability values, translates into the following commitments:

AEDES COMMITMENTS IN THE RELATIONSHIP WITH SUPPLIERS



The **projects and activities of the Group**, such as the Serravalle Retail Park, have a significant **impact** on the territory, both in terms of **employment**, as it is able to provide job opportunities to employees and suppliers, and in **commercial** terms, by connecting the commercial offering of tenants with the needs of the local population, expanding leisure opportunities for the residents. With this in mind, in the contract for the Serravalle Retail Park expansion works (in progress in the municipalities of Serravalle and Novi Ligure - Province of Alessandria), 50% of suppliers/subcontractors have operations in the Province of Alessandria and their turnover for 2017 accounts for approximately 75% of total supplies/subcontracts.
Additionally, the project aims to take the best possible contemporary and smart approach in communication and interactivity with visitors. The digital Totem and Smart Square projects have been developed alongside.
The Totem will be the new landmark of the Serravalle Retail Park, stemming from the concept of “totem-sculpture” and amplifying it with the dynamism and multiplicity of visual content that a digital screen can provide. At the top of the totem, there will not be just one sign but all those of the shopping complex, plus various kinds of messages, news and general information. The Smart Square aims to act as a new meeting point, as recognizable and identifiable as an old town square, where visitors can play with high-quality and engaging virtual applications. In addition, the playful but artistic approach of the square will be further emphasized by games where visitors can win prizes involving the cafes and restaurants around the piazza. The Smart Square will not only feature a LED wall, but all its “accessories” (lighting, sound system, seats, etc.) will complement this innovative and technological approach.
Constant engagement with municipal authorities is crucial when developing business; the Group, in fact, manages the planning and construction phase meticulously and professionally.
In detail, when building permits are granted, the General Manager endeavours to ensure that **local businesses are used**, delivering value directly on the surrounding territory, involving **partners and local authorities** in strategic projects, to manage training courses aimed at professional recruitment.
The ultimate result of the Group’s core business has multiple effects on the local business life and community, particularly the economic effects of a general and sectoral nature, such as on consumption, revenue and employment, and social effects on important issues such as mobility, aggregation and cultural, social and individual development.

3.4 Responsibility towards people

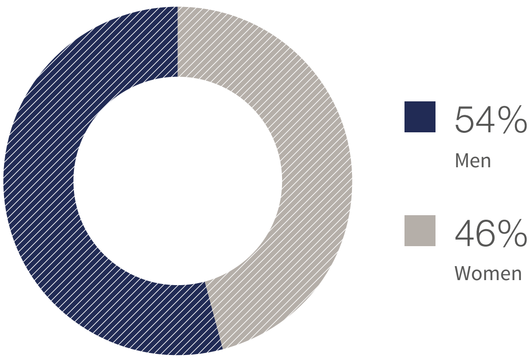
Human resources	**Professional growth**
Gender equality	**Health and safety culture**

MANAGEMENT, DEVELOPMENT AND ENHANCEMENT OF INDIVIDUALS

People are at the heart of a healthy and solid company, which is why the Aedes Group considers it is essential to have a workforce of exceptionally skilled human resources, capable of providing professional expertise and added value, to address and overcome the challenges posed by the market.

The Group adopts a management and human resource development policy aimed at **enhancing people** and encouraging their **professional growth** and **career development**, in the belief that the Company's results are closely linked to the ability of its people to devote their energies to achieving results.

AEDES GROUP EMPLOYEES BY GENDER



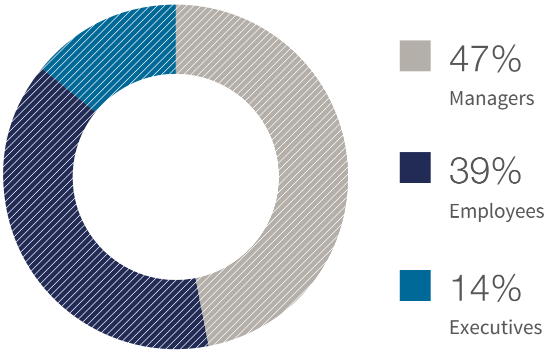
At 31st December 2017, the Aedes Group has a workforce of **61 employees**, of whom 54% are men and 46% women. The Group's workforce also includes other **3 persons** who work with the Group in various capacities.
In 2017, **10 new employees** joined the Group, representing an inbound turnover rate of approximately 16.39%, while the number of outbound employees amounted to 10, with a rate equal to approximately 16.39%.

AEDES GROUP INBOUND AND OUTBOUND EMPLOYEES BY GENDER AND AGE GROUP

No. of staff	No of inbound employees - 2017					No of outbound employees - 2017				
	<30	30-50	>50	Total	Turnover %	<30	30-50	>50	Total	Turnover %
Men	1	3	2	6	18.2%	1	4	1	6	18.2%
Women	1	2	1	4	14.3%	0	4	0	4	14.3%
Total	**2**	**5**	**3**	**10**	**16.4%**	**1**	**8**	**1**	**10**	**16.4%**

As for the breakdown of Aedes SIIQ Group's personnel by professional category, Executives account for 15% of the Group's population, Managers for 47% and Employees for the remaining 38%. Executives and Managers are all employed in the main business locations.

AEDES GROUP EMPLOYEES BY PROFESSIONAL CATEGORY



BREAKDOWN OF EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER

No. of staff	31.12.2017			31.12.2016			31.12.2015		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executives	5	4	9	4	4	8	4	4	8
Managers	17	12	29	17	11	28	11	11	22
Employees	11	12	23	14	15	29	13	16	29
Total	**33**	**28**	**61**	**35**	**30**	**65**	**28**	**31**	**59**

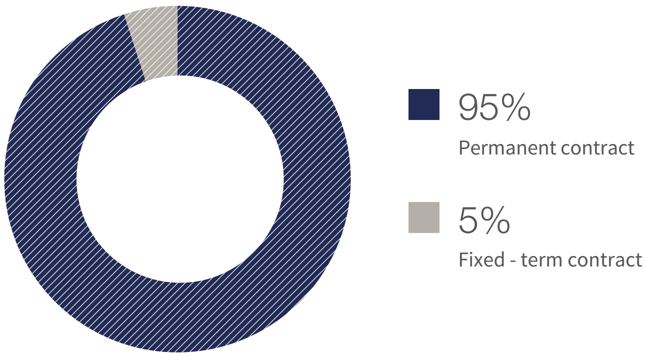
3% of the workforce is composed of employees under the age of 30, 84% are aged between 30 and 50 and 13% are over 50.

BREAKDOWN OF EMPLOYEES BY GENDER AND AGE GROUPS (NO. OF PERSONS)

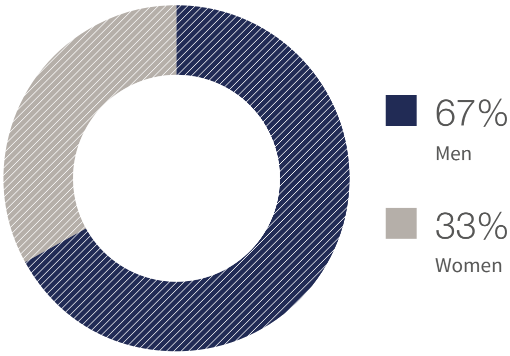
No. of staff	31.12.2017			31.12.2016			31.12.2015		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Under 30	1	1	2	3	1	4	4	1	5
30 – 50	29	22	51	27	25	52	19	25	44
Over 50	3	5	8	5	4	9	5	5	10
Total	**33**	**28**	**61**	**35**	**30**	**65**	**28**	**31**	**59**

Ensuring a steady and lasting employment relationship is an important requirement for the Group, both as a driver for its employees and as an essential element for growth and economic development. For this reason, **95% of resources** are on a **permanent contract** and 5% on a fixed-term contract.

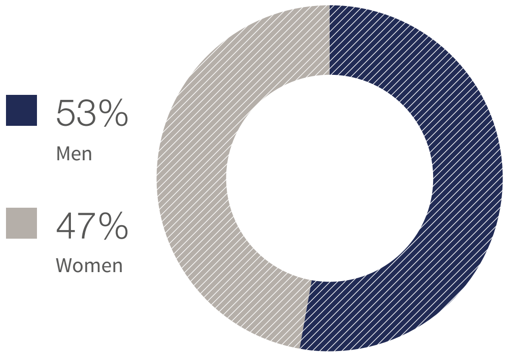
BREAKDOWN OF EMPLOYEES BY TYPE OF CONTRACT



BREAKDOWN OF FIXED-TERM EMPLOYEES BY GENDER



BREAKDOWN OF EMPLOYEES WITH A PERMANENT CONTRACT BY GENDER

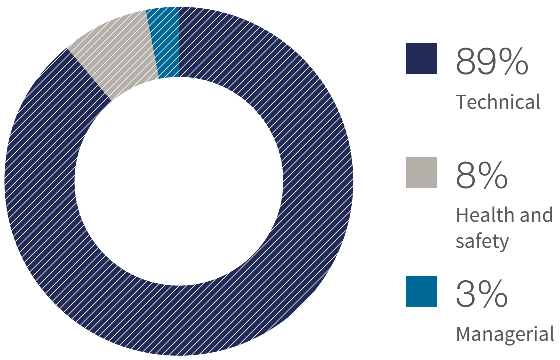


Aedes SIIQ S.p.A. considers personnel **training** a fundamental lever for ongoing improvement of its employees, which in turn generates **added value** to the overall business of the Group.

In 2017, the Human Resources Department conducted a thorough **analysis of the training requirements of employees**, in collaboration with their Managers, to better understand workforce requirements.
The analysis process started with an **assessment of the skills** required by each job role, in order to identify gaps and provide targeted training and development. The first results of the analysis of the training paths were seen starting from the second of 2017; for 2018, an additional path is expected with rich possibilities of implementation. During the year, the Group provided over **1,954 hours of training** to its personnel; specifically, 28% of total hours involved Employees, 51% Managers, and 21% Executives.

The **training areas** identified are **occupational health and safety, technical areas** (e.g. training on the use of IT tools, the property business, budgeting, project management and BIM) and **managerial** areas (e.g. staff management and leadership). Specifically, the Group devoted 160 hours to training in health and safety, 1,730 hours to technical and language training, such as market abuse, property finance, management control, project management, Microsoft Office tools, the teaching of English and, finally, 64 hours to management training, oriented towards the management of human resources and leadership.

HOURS OF TRAINING BY SUBJECT AREAS IN 2017



2017 saw a follow-up on the **Leadership Evolution project** addressed to the **Aedes Top Management**, in order to assess progress in the managerial skills acquired in the opening phase of the project, reflect further on the different leadership styles, exploring, by comparing and expanding prospects, different ways of generating synergy and confidence, and promoting a sharing process and transversality of communication to increase collaboration and the motivation of people. Along the path, focus was placed on the issues of management and employee motivation, delegation skills, effective (positive/negative) feedback, listening and empathy.

The Company also invested heavily in **language training** for its employees in 2017, organizing one-to-one English courses for Executives and group courses for Managers and Employees.
In 2017, with a view to ongoing improvement in the resource enhancement and development process, the Group, in collaboration with Management, established a Performance Management Process (PSM). Aedes SIIQ sees performance assessment an important and strategic contributor to achieving company objectives. PSM's main aims are to evaluate employee achievements in relation to assigned objectives, examine organizational methods to increase efficiency, and increase the quality of people's working life. This helps to reach various objectives, improving the internal milieu and encouraging teamwork.

TARGETS OF THE ASSESSMENT PROCESS

Actively engaging with and empowering all employees, increasing their motivation and the quality of their working life	**Aligning organizational and strategic objectives with individual goals**	**Improving communications between managers and employees, to clarify what constitutes good performance and establish a culture of constructive feedback**

The project will be launched in the early months of 2018. It will involve the entire company workforce and be divided into three phases:

Allocation of objectives and development/training plan for the year → **Interim review (optional)** → **Self-assessment or final assessment of performance and sharing of the development/training plan**

This process marks Aedes's continued commitment to the people of the Group.

DIVERSITY AND COMPANY WELFARE

For Aedes SIIQ, human resources are at the heart of the Company, which is why it stands at the forefront in ensuring **fair and merit-based treatment**, guaranteeing a professional work environment in compliance with equal opportunities, **free of discrimination** of race, gender, age, sexual orientation, physical or mental disability, nationality, religion, political allegiance or union membership.
Aedes recognizes and guarantees **gender equality** within the organization, both in terms of equal grade and remuneration, and promotes the participation of women at the highest levels of governance.
The Company is, in fact, governed by a Board of Directors composed of 9 members, and ensures gender equality guaranteeing the minimum presence required by the laws and regulations from time to time in force.
Aedes has put in place procedures governing the management, development and enhancement of people.
Specifically on this last point, in addition to the provisions in the **National Collective Employment Contract** applied to the workforce, additional benefits are provided for employees:

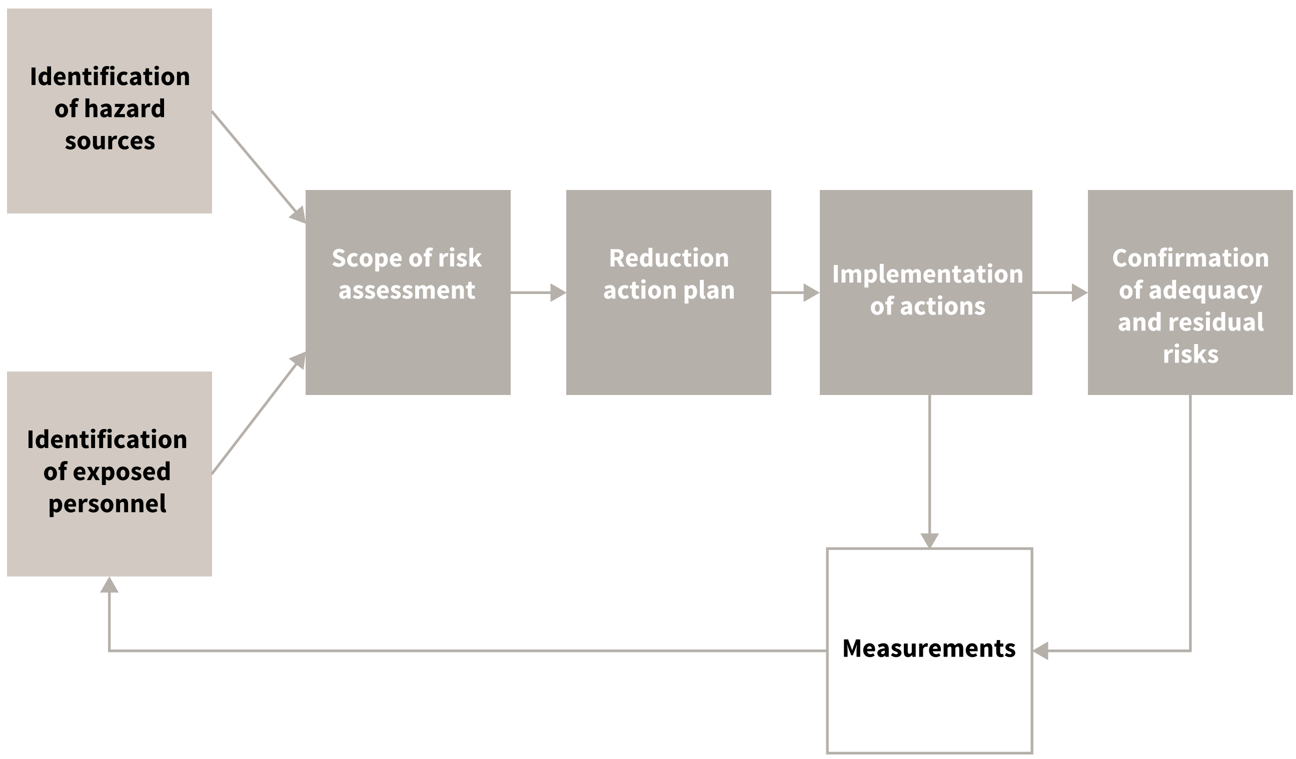
- insurance coverage for occupational and non-occupational accidents for the entire population;
- supplementary Fasdac health insurance policy for Executives;
- lunch vouchers;
- supplementary health policy;
- daily top-up, paid by the Company, of the keys supplied to employees for the purchase of coffee/tea or other beverage;
- gifts on the occasion of employee birthdays and births;
- 20 hours per year of additional permits for health services;
- coverage paid by the Company for up to 100% of sickness events.

In order to facilitate lunch breaks, a break area has been set up, not only with the traditional vending machines, but also with an equipped kitchen. The Company is considering whether to provide additional medical insurance on top of the contractually provided funds (Quas and Fondo Est) for all its employees and their families.

WORKPLACE HEALTH AND SAFETY

The Aedes Group considers the health, safety and physical and mental integrity of people the most precious asset to be protected at all times of life, at work, at home and in their leisure time.
For the Group, it is essential to develop and promote a strong **safety culture** among all its employees, as each person is responsible for his/her own health and safety and that of those with whom he/she interacts.

The Company addresses this responsibility thanks to measures to protect against risks, such as their assessment, investment in personnel training, stringent selection of suppliers, maintenance levels and ongoing control.
Training and information for workers is a fundamental tool to prevent risks to **health and safety**, which is why the Company undertakes to devote **239 hours of training** to such a complex issue.
Only 1 accident was recorded in **2017**, which occurred at the end of 2016 and resulted in **11 days of absence**.
The Company has put in place a series of procedures for the protection of the health and safety of employees in the workplace and identified, trained and appointed the key players to support the business needs, such as first aid and fire prevention officers, Executives and Managers.
The Aedes Group has prepared the **Risk Assessment Document (RAD)** and will ensure its periodic regulatory compliance with legal requirements and company structure.
The objectives of this document are the identification of all the necessary measures to safeguard the safety and health of workers, through the prevention of occupational risks, protection from employment risks and training of personnel.
The assessment, monitoring and reduction of risk is structured as an ongoing activity, permanent over time.
Specifically, **risk assessment** within the Aedes Group follows a formal and stringent **procedure**, based on the following flow:



3.5 Responsibility towards the environment

Sustainable development of the territory

Green construction

Smart mobility

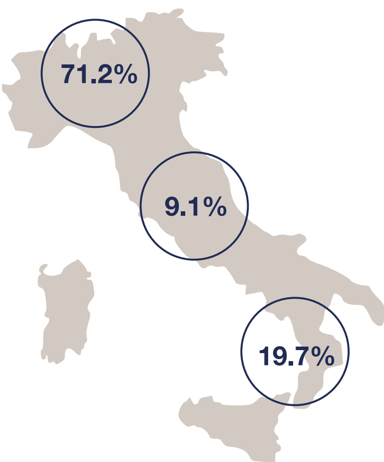
"La Bollina" Azienda Agricola

Promoting responsible consumption within the Caselle Project

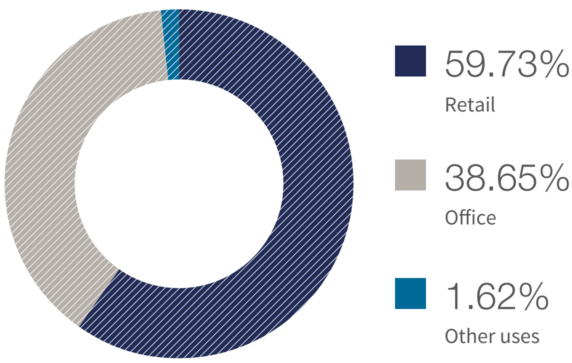
ENVIRONMENTAL SUSTAINABILITY POLICY

The Aedes Group interacts daily with the outside world, a key resource for its projects and activities, and deems as crucial the sustainable development of the territory and **protection of the environment** in which it operates, while respecting the rights of communities and future generations.
The table below shows the geographical breakdown and intended use of the Group's revenue portfolio.

REVENUE PORTFOLIO, BY GEOGRAPHY



REVENUE PORTFOLIO, BREAKDOWN OF INTENDED USE



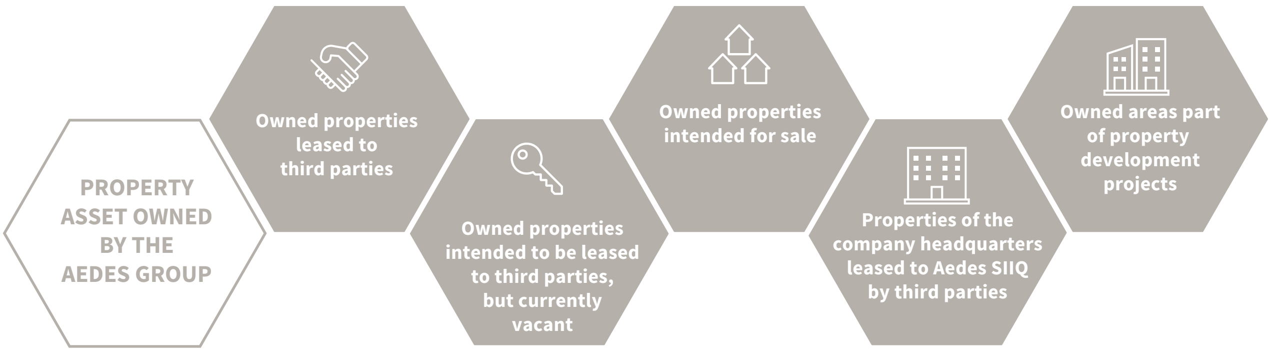
PROPERTY ASSETS OWNED BY THE AEDES GROUP

The Group's business is divided into two main areas, which make it easier to understand its approach.
The first business area pertains to the **Property & Facility Management** and **Investment & Asset Management** functions, which manage two types of property portfolios:

- "rented assets", which include Retail properties for commercial use (shops, parks and shopping centers), Office properties for service - office use (business offices) and Other-use properties for uses other than those listed above (hotels, clinics, residences for the elderly, logistics and shopping centers);
- properties "for sale" (or "to be sold"): this category includes assets intended for sale in the short/medium term, either in bulk or piecemeal.

In addition to office properties and tourist-accommodation (hotels), the function manages about fifteen commercial properties that are part of the "Redwood" Real Estate Fund purchased at the end of 2016, while the Serravalle Retail Park shopping center and two Torri Richard in Milan were acquired in 2017. **Project & Facility Management** is also responsible for managing the building that houses Aedes SIIQ headquarters, which is rented from a third party.

The **Investment & Development Management** area manages the developments for "revenue" – the property development projects mainly for Retail use added to the Group's portfolio – and the "lands to be sold". This area also manages the Technical Property Services falling under the project management and General Contractor activities performed by Praga Res S.r.l., revolving mainly around captive property services, aimed at controlling the Group's investments and supporting the target companies.
In the Development Areas, it may be possible to devise management and efficiency policies and implement a long-term monitoring plan.



With regard to the Aedes Group's activities involving properties managed by **Property & Facility Management**, however, the specific characteristics of each type need to be outlined, as this influences the potential ways of improving their efficiency:

1. **Owned properties leased to third parties:** as these are properties for private use, it is often difficult to set up reporting systems on water and energy consumption, assess any initiatives to improve efficiency or qualification interventions. These activities have to be agreed with the tenant, are not covered in the lease agreements and could also have an impact on the operations of the tenants. Regardless, monitoring properties' energy consumption and analyzing what actions can be taken to achieve greater efficiency should be seen as a constructive and well-intentioned commitment that forms part of company operations and also involves engaging with tenants. For example, in the second half of 2017, the Serravalle Golf Hotel underwent energy reconditioning, a major agreement was signed with a property in Catania, and a further agreement with a building in Tavagnacco (Udine) is currently being finalized.

2. **Owned property intended to be leased to third parties but currently vacant:** no consumption is recorded for these properties, subject only to conservative maintenance. Possible energy efficiency and upgrade initiatives are currently being evaluated. As there is no need to take account of the tenant's operations, these initiatives could be particularly targeted and significant. They could also be integrated into commercial lease agreements, because monitoring consumption and efficiencies could be beneficial both for the future tenant and for the property, depending on the provisions of the lease agreement. For example, the level of efficiency achieved could act as a target on which future rent increases could be based.
3. **Owned properties for sale:** since these properties are not expected to remain in the Aedes Group's portfolio, it is difficult and pointless to develop a system for reporting on water and energy consumption and any efficiency initiatives. Indeed, the costs incurred for such initiatives would not be amortizable and would be difficult to monetize in sale negotiations.
4. **Properties of company headquarters leased to Aedes SIIQ by third parties:** in these properties, Aedes SIIQ acts as lessee. A reporting system on water and energy consumption can be developed and possible efficiency initiatives can be considered, subject to agreement with the owner. It remains difficult to carry out significant upgrade work, which could have an impact on the activities of the Aedes Group and also may not be permitted under commercial lease agreements. However, it is worth considering entering into an agreement with the owners of the properties on work and initiatives to improve energy efficiency. Furthermore, as a way to monitor their effectiveness, activities to control consumption will also continue.

Initiatives for better management of consumption and for the implementation of efficiency measures

Different energy consumption management and efficiency policies can be developed for property assets owned by the Aedes Group, depending on the condition of the various assets. The initiatives launched or planned during 2017 were aimed at pursuing and achieving the following short- and/or medium-term objectives.

Reduction of energy usage for air conditioning in buildings	• Improving and intensifying **dialogue with tenants**, to find out what problems they are encountering and prevent potentially critical situations, planning maintenance work to avoid the need for emergency intervention • Periodically checking the **condition**, **functioning and controls of the heating and air conditioning systems in the buildings** in order to reduce the energy consumption deriving from sub-optimal scheduling of operating hours and to plan any upgrades
Reduction of electricity consumption	• Gradually replacing existing luminaires with LED systems that have greater technical resistance and lower energy impact • Using advanced technologies to monitor the functioning of electrical components of lighting systems
Reduction of water consumption	• Design systems to reduce consumption of drinking water for irrigation purposes in the green areas under the buildings owned by the Group • Refurbishing toilet facilities
Use of recycled materials	• Carefully selecting high quality materials certified by recognized authorities • Raising user awareness

For example, many of the initiatives listed above were implemented in the recently acquired Serravalle Retail Park project. Activities to reduce and improve energy consumption included a plan to convert the lighting in all the car parks and the road network to LED, which will also have financial benefits for tenants. In addition, adopting building management software (BMS) for the shopping center will make it possible – among other things – to monitor the correct functioning of the electrical components of lighting systems. To reduce consumption of drinking water for irrigation purposes in the green areas under the buildings owned by the Aedes Group, the decision was taken to replace the grass areas with creeping shrubs, which need less water, are good for the environment and look nice. Finally, materials deriving from quality recycled products certified by recognized bodies will be used to renovate the rubber flooring of the children's play area in the Retail area.

ENVIRONMENTAL IMPACTS OF AEDES GROUP SITES

The Group currently manages two construction projects through Praga Res S.r.l.. The first site is for Phase C of the expansion of the "Serravalle Retail Park", which is located in Serravalle Scrivia (Alessandria), with 45,000 m^2 of surface area straddling the municipalities of Serravalle Scrivia and Novi Ligure. Electricity usage for the activities carried out at this site totals approximately 54 megawatts, while drinking water consumption totals approximately 110 cubic meters. The second site is for the renovation and expansion of the Carrefour shopping center in Nichelino (Turin), which covers an area of approximately 90,000 m^2. There is no direct energy consumption in this case, as construction site activities are carried out with industrial partners by establishing consortiums over which we do not have control.
Regarding other environmental issues – i.e. the management of water resources, logistics and waste – Praga Res S.r.l. has not adopted any specific procedures and instead follows the Group's general procedures.

MEASURING ENVIRONMENTAL IMPACTS

The Aedes Group deems environmental sustainability as a fundamental topic and, in the context of its planning and operational management, strives to minimize the environmental footprint of its business and of the assets forming the Group's property assets, and to comply with all relevant legislative and regulatory requirements.

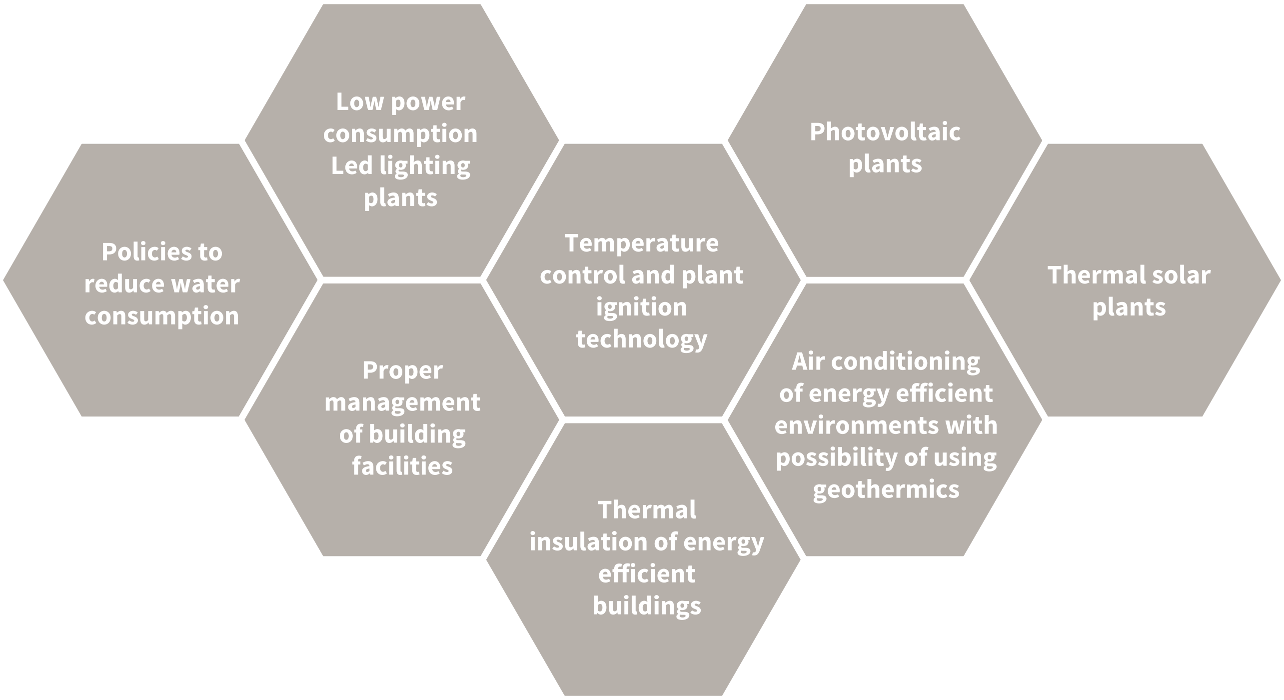
The priority areas on which the Aedes commitment is focused to reduce its environmental footprint are as follows:

- efficient use of resources, optimizing the use of energy and natural resources;
- waste recovery and recycling;
- protection of biodiversity and ecosystems;
- containment of atmospheric emissions;
- investments for growing sustainable mobility.

Boundary of reporting of environmental data
The reporting scope for the following information is limited to the spaces that house the offices of Aedes SIIQ, Praga Res S.r.l. and Azienda Agricola La Bollina. In 2017, the secondary office was used only occasionally, as the entire staff have been transferred to the main office since the end of 2015.

Management of energy consumption, emissions and efficiency measures

The Group undertakes to protect the environment and restrain the use of natural resources through an environmental responsibility policy and planning of sustainable development measures:



With regard to areas owned, the Aedes Group undertakes to manage information and awareness policies on its virtuous behaviour towards energy consumption, through ad hoc training of personnel and suitable communication campaigns and signage for the use of services by clients. The group focuses a great deal on monitoring actual consumption, which is obtained from the bills sent by energy suppliers.

Aedes' commitment to environmental issues was reflected in a decrease in natural gas consumption, partly attributable to paying greater attention to the design of the air conditioning system. Overall, the secondary office in Serravalle consumed different amounts of energy versus 2016, as the new site offices (portacabins) are cooled by electrically powered "split" air conditioners.

The following is a breakdown of Aedes SIIQ's energy consumption and energy intensity.

AEDES GROUP ENERGY CONSUMPTION

Energy consumption					
Type of consumption	**2016**		**2017**		**Change**
Natural Gas*	m³	13,040	m³	11,296	-13%
Electricity	kWh	542,516	kWh	534.015	-2%
of which purchased for the Milan offices	kWh	474,985	kWh	432.506	-9%
of which purchased for the Serravalle offices	kWh	67,531	kWh	101.509	50%

* The data relate only to the secondary office in Serravalle Scrivia

As in 2016, the Aedes Group addresses the reporting of greenhouse gas emissions as a result of its activities.

The following is an estimate of emissions divided by type of scope, where Scope 1 is understood as being direct emissions, and Scope 2 as indirect emissions generated by electricity consumption.

ESTIMATED EMISSIONS OF GREENHOUSE GASES BY THE AEDES GROUP

Emissions CO_2 [t CO_2]		
Source	**2016**	**2017**
Scope 1	25.5	22.2
Scope 2	203.4	200.3
Total	**229.0**	**222.5**

As regards the ways in which the energy consumption of buildings owned by the Aedes Group and leased to third parties can be optimized, the difficulties mentioned above continue to apply. That said, initiatives for increased efficiency should be assessed in detail for each individual situation through discussions with the tenant. Tenants should be made aware of the benefits of better energy resource management, which also translates into lower costs. There should be a move towards replacing heating/air-conditioning machines with new, highly efficient versions, or towards the use of geothermal energy, and there needs to be a focus on managing these systems in accordance with current regulations. The installation of low-energy LED lighting systems should be considered and there should be an effort to promote energy-saving habits through campaigns targeted both at employees and at customers who use the services, through appropriate campaigns and signage. In vacant rental properties, the temporary lack of activity should be seen as an opportunity to install systems making it possible to reduce energy consumption.

Materials handling and waste disposal

The Aedes Group attaches importance to environmental protection and the responsible use of resources; it implements its commitment by providing a detailed report of the materials used and the waste produced.
With regard to materials, **9,493 Kg of materials** were used to manage the Group's offices, broken down as shown below.
The number of employees at the Milan office increased versus 2016, due to the expansion of certain sectors (namely Project and Property). This led to a slight increase in the consumption of materials. Meanwhile at the Serravalle site, work was completed on Phase 6 of the Serravalle Outlet Mall, whose offices were located in the building at Via Novi 39, and a new site for the construction of Phase C of the Serravalle Retail Park was opened. This called for new site offices (portacabins), which house the employees of the construction company, subcontractors, the Site Management office and the meeting room. There were no significant changes as regards Società Agricola. It should be noted that a number of parameters have been calculated based on assessments and estimates taking account, for example, of the number of employees at the workplaces in question.

MATERIALS USED BY THE AEDES GROUP

Type of material used	2016		2017	
	Unit of measurement	Weight/Volume	Unit of measurement	Weight/Volume
Office paper (Milan secondary office)	kg	6,200	kg	6,800
Office paper (Serravalle secondary office)	kg	210	kg	350
Toner (Milan main office)	kg	40	kg	44
Toner (Serravalle secondary office)	kg	2.40	kg	4.00
Stationery (Milan main office only)	kg	155.81	kg	170.00
Detergents and kindred products for cleaning services (Milan main office)	kg	300	kg	300
Detergents and kindred products for cleaning services (Serravalle secondary office)	kg	30	kg	30
Paper, other use (Milan secondary office)	kg	1,613	kg	1,550
Paper, other use (Serravalle secondary office)	kg	149	kg	245
Total		**8,701**		**9,493**

With regard to the management of waste from activities performed, in 2017 Aedes SIIQ produced 17.7 tonnes of waste, 0.05% of which considered hazardous (e.g. used stationery, electrical and electronic waste). The main material recycled is paper for office use (80% of recycled materials). Again, the increase in waste was due to the changes in the property stock during the year.

AEDES GROUP WASTE BY DISPOSAL METHOD

Disposed waste										
Disposal method	2016					2017				
	Unit of measurement	Hazardous	Non-hazardous	Totale	% Total	Unit of measurement	Hazardous	Non-hazardous	Total	% Total
Recycling (only 80% office paper)	t.	0	5.128	5.128	30.30%	t.		5.720	5.720	32.29%
Other (disposed of in municipal recycling sites)	t.	0.042	11.753	11.796	69.70%	t.	0.048	11.948	11.996	67.71%
Total	**t.**	**0.042**	**16.881**	**16.924**	**100.00%**	**t.**	**0.048**	**17.668**	**17.716**	**100.00%**

In the analysis of materials and waste disposal management, a distinction must be drawn between the main active properties for office and tourist-accommodation use and those for commercial use.

MANAGEMENT AND DISPOSAL OF WASTE BY TYPE OF PROPERTY

OFFICES PROPERTIES

- The management and disposal of the waste occurs through the **service provided by the reference** Municipality, with the payment of TARI.
- The products are essentially waste paper, food scraps and packaging, all of **recyclable nature**.
- With regard to the management of special waste (material parts, exhausted stationery materials, electric and electronic waste), the activity **involves careful monitoring and awareness of employees**.

COMMERCIAL PROPERTIES

- The waste collection is done either through the service provided by the city and through the **award** of a **third company**.
- Such outsourcing occurs by prior arrangement with the Municipality of reference and involves a **refinement of operations**, as they are repeated downstream of the collection, in special ecological areas.
- The Group intends to invest in suitable ecological areas and the careful management of waste.

WASTE MANAGEMENT DURING CONSTRUCTION ACTIVITIES

- The **waste management** during construction is carried out in compliance with the regulations in force, with the **correct separation of construction** of result and its disposal and reuse materials.
- Even the management of materials similar to "excavated earth and rocks" is obviously managed **in accordance with environmental laws and regulations**.

Responsible management of water resources

Aedes SIIQ recognizes the utmost value of the natural resources it uses, developing production processes designed to reduce water consumption.
The following is a breakdown of Aedes SIIQ's water consumption.

AEDES GROUP WATER CONSUMPTION

Water drawn					
Source	2016		2017		
	Unit of measurement	Volume	Unit of measurement	Volume	Change
Drawn from public waterworks (Milan main office)	m^3	936	m^3	600	-36%
Drawn from public waterworks (Serravalle main office)	m^3	780	m^3	500	-36%
Total water		**1,716**		**1,100**	**-36%**

The total volume of water consumed equals the total water drawn and consumed by the Group. The same water is discharged into the wastewater systems of the cities where the premises are located.
With regard to areas owned, the requirements for the approval of the property development interventions for commercial use include the following activities:

REDUCING WATER CONSUMPTION	Reuse of stormwater and wastewater for the uses in which it is not necessary to use drinking water: irrigation, washing, maintenance operations, fountains, fire emergencies, health and similar discharges.
PLANT TERMINALS	The inclusion of plant engineering designed for the containment of water consumption, such as regulators and flow restrictors.
STORMWATER	Stormwater management, reducing the waterproofing of the land and increasing the capacity of balancing and detention, avoiding disposal of white water in the sewage system.

With regard to property owned by third parties, a critical issue arises in the implementation of sustainable measures; the promotion of virtuous consumption-oriented types of conduct is, however, being assessed with the introduction of plant terminals to contain water consumption, and the implementation of user awareness campaigns. For owned properties intended to be leased to third parties but currently vacant, it is also worth assessing whether to take advantage of the temporary lack of activity to carry out work on the building and its facilities, and to implement existing systems to reduce water consumption.

Biodiversity management

Biodiversity protection is a pivotal issue in the management of property development projects, especially those for commercial use, as they are always preceded by an authorization procedure that includes a series of environmental assessments.
Under the procedure, the promoter of the intervention is required to give proof to the competent authorities that the planning, implementation and subsequent management of the interventions will take place through proper management and minimization of the environmental impact of the project. This is especially relevant for extraordinary maintenance, renovation or revamping of facilities that are carried out as standard, while **Property & Facility Management**'s activities do not normally include the expansion and/or renovation of property and buildings that would require a specific procedure to verify and assess the environmental impact of the work to be carried out.
With regard to biodiversity management, the main scenarios monitored regard the impact on water quality, air quality, natural ecosystem, noise impacts and any other environmental peculiarities of the territory where the project will be implemented. A great deal of attention is also given to the topic of pollution, both light and energy, in order to optimize consumption.

With regard to new construction projects, the Group does not operate in sites considered to be particularly safeguarded from a biodiversity point of view, but, as shown in the box below, puts in place a number of mitigation measures for potential impacts on species and areas considered protected.
The rules established on approval of the project are also subject to continuous monitoring to verify the adequacy of the mitigation measures.

Protection of biodiversity and natural habitats
The mitigation analysis of the impacts on biodiversity is conducted in a professional and meticulous manner, an approach that shows how the management and reduction of the environmental impact is crucial for Aedes. Mention should be made of a number of the instructions given:

- creating ecoducts designed to ensure the protection of animal species in the area;
- restoring and strengthening of plant species touched by the interventions;
- strengthening of the existing surface water management systems, for both irrigation management and surface hydrography;
- actions aimed at the protection of groundwater;
- payment of contributions to the competent authorities, to be used for the mitigation of environmental impacts and improvement/expansion of neighbouring natural ecosystems.

Interventions of rehabilitation and upgrading to new uses

In this context, a number of property development projects have been carried out over time through the recovery of areas previously used, but disused and abandoned.
Interventions are carried out following remediation, resulting from analyses of existing environmental critical factors, and are subject to audits and monitoring by the competent authorities before and after the activities are performed.
Recently, prior to the construction of a new shopping center in Serravalle Scrivia and Novi Ligure, Novipraga SIINQ, a subsidiary of Aedes SIIQ, took steps to drain a vast disused industrial area, providing for the safety measures and the disposal of asbestos-containing material, of tanks used in fuel containment, and to reduce and recycle the materials produced by the demolition of buildings.
Additionally, of the necessary property management activities pertaining to Property & Facility Management, **the identification and characterization of asbestos and materials containing glass fibre**, where present, is of significant importance. This is performed through the drafting of a specific survey to certify the possible presence of asbestos and results, when it is present, in the appointment of an Asbestos Manager that is bound by law to keep track of and monitor the presence of asbestos until it has been completely removed. By way of example, in 2017 this survey was performed for a property located in Rome.

Transport and logistics management

With regard to mobility management, the Aedes Group is constantly committed to reducing the impacts of its activities, involving all its personnel and its partner companies.
Each new property development project, especially those for commercial use, is preceded by a licensing procedure of environmental assessment and audit.
Under the procedure, through appropriate expert reports, the promoter of the intervention is required to give proof to the competent authorities that the planning, implementation and subsequent management of the interventions will take place with the utmost respect for the environment and the territory, reducing the potential negative impacts. Specifically, priority is placed on the impacts on existing infrastructure, pedestrian and vehicle traffic, and on any similar peculiarity typical of the territory where the project is implemented.
The rules established for approval of the project are also subject to constant monitoring, both before and after work, to verify the adequacy of the mitigation measures.

Main activities for reducing environmental impacts on external infrastructures

PUBLIC TRANSPORT SYSTEM	Improvement of transport systems, construction of new infrastructure for public transportation stops, conclusion of agreements and conventions to facilitate access to the new complex.
CONTRIBUTIONS	Payment of contributions to the competent authorities, to be used for mitigating impacts of the road sysyem and expansion of roadway infrastructure of the territory concerned.
CYCLE PATHS	Establishment and strengthening of pedestrian infrastructure.
ROAD ACCESS	Creation of road access dedicated to the transit of means of service and logistics, having independence with regard to traffic destined for normal vehicular traffic.
STOP, PARKING AND INTERCHANGE	Upgrading and implementation of alternative roadway infrastructure and parking and interchanges between public transport and private vehicles to avold traffic management issues.
GREAT WORKMANSHIP	Implementation of shuttle services for the internal transport of large-scale operations and connection to major public transport terminals.

The Company pays the utmost attention to the environmental impact of CO2 emissions into the atmosphere, and has therefore prepared a company fleet of 30 cars with low impact of greenhouse gas emissions, providing its employees with information to help with such reduction[1].
Additionally, to help improve the quality of life and the environment, Aedes has expanded its pool car fleet by adding a “hybrid” car with lower emissions.

FOCUS: PROMOTING RESPONSIBLE CONSUMPTION WITHIN THE “CASELLE PROJECT”

Within the Caselle - Open Mall Project, the Group set an objective of reducing environmental costs to their minimum both in terms of resource use and waste production, as well as increasing the use of appliances that are energy and water efficient.

[1] The company fleet being referred to does not include the agricultural machinery owned by La Bollina.

Primary reasons and motivations of the initiatives for the proper utilization of energy resources for the new Caselle Open Mall

STREET LIGHTING	• Containment of energy usage for street and public lighting thanks to LED lighting systems, in accordance with current laws and regulations; • Containment of street lighting costs by using light sources with a long average life.
LIGHTING CONTROL	• Reducing wasted lighting in accordance with Piedmont Regional Law no. 31 of 24 March 2000, by using high-performance, full-cut-off luminaires and monitoring the light flow; • Installing a remote-control lighting system.
ROAD SAFETY AND PERSONAL SAFETY	• Increasing road safety to reduce accidents, in accordance with the Italian Highway Code; • Reducing crime and vandalism, which tend to increase where lighting coverage is uneven.
RESPECT FOR THE LOCAL AREA	• Using available urban space sensibly, while preserving local heritage; • Enhancing the urban and residential environment, improving traffic flow; • Integrating lighting systems with the surrounding environment, both during the day and at night.
ENVIRONMENTAL PROTECTION	• Preserving and protecting the environment; • Safeguarding research activities in astronomical observatories' protected areas; • Maintaining ecological balances close to urban and suburban protected natural areas.

With regard to the **efficient management of waste** generated by construction and demolition activities and to render recycling more effective, it is necessary, as is also the case in other industries, to properly plan and manage construction and demolition sites in order to differentiate the waste produced, subdividing it by homogeneous category from the time it is produced, consistent with the size of the work site.
Planning and coordination of construction waste management activities is necessary from the very start of the project, accomplished through the use of a specific document, in order to guarantee that recycling and reuse objectives are reached.

Activities for the efficient management of waste

Researching the materials that can be recycled, reused and recovered within the municipality or region, therefore diverting them from landfill.

Identifying waste transporters and recycling facilities in the area and deciding whether waste separation should be done on-site or off-site.

Keeping up-to-date on the amounts of material recovered and recycled by contractors and subcontractors and regularly obtaining documents certifying these percentages.

These activities may be also supported by the use of Waste Management web portals, which become tools shared by the producers and the managers of site waste, with the possibility of providing works management and the client with control, data storage, and comprehensive management statistics and results.

The Smart City project and its principles

The project will be realized according to the principles of a Smart City with modifications made necessary by the diverse scale of the intervention. In a smart city, the quality of life improves thanks to the possibility of promoting clean and sustainable mobility, reductions in energy consumption, the production of high technology and the offering of culture and accessibility.

The **SMILE project** is the Caselle Open Mall's point of reference for the Torino Smart City which includes 5 focus areas to improve and highlight the city's intelligence. These areas were identified thanks to rapid and shared planning that led to the identification of sustainable and replicable solutions.

The internal covered pathways dedicated to the pedestrian flow of Caselle Open Mall users are divided into two macro-areas with separate climate-environmental control systems:

- **The retail shopping area, called the "Open Mall"**. The mall, consisting of a large, completely covered walking area that is protected from the weather, is connected to the shopping center's remaining open spaces by large openings. Inside, users can walk, visit shops and enjoy the services offered by the center. The area will have a micro-climate that is consistent with the external climate, adequately mitigated by the meticulously designed building envelope and managed by passive climate control systems;
- **The "Food Court"**. Large covered area that is completely air-conditioned with active climate control plants and systems which are based on the different seasonal temperatures. The area is dedicated to the customers of the center's restaurant services, patrons that are waiting to enjoy some of the leisure activities that are offered or that are just taking a moment to relax.

The design concept of the building envelope and its internal spaces and furnishings is organically conceived to maximize climatic comfort, based on the decision to provide a natural environment that is open but covered and that is not artificially air conditioned. Therefore, on the inside the external weather conditions are mitigated, especially during the peak summer and winter months when the weather is quite harsh.

The goal was achieved by designing a roof system with transparent surfaces to protect against the weather and passive control of the micro-climate. As a result, visitors will feel as if they are in an open space, but at the same time covered and protected. Openings between the cover and the building's solid spaces, placed on various levels, ensure the exchange of fresh air in compliance with urban planning and fire prevention regulations. Some openings can be opened or closed with forced ventilation/extraction mechanisms that are automatically controlled through the use of thermo-hygrometric sensors that measure the internal and external climatic conditions.

The size and shape of the envelope gives users the feeling of almost natural ventilation. The extensive spaces planted with carefully selected trees and shrubs will thrive in an environment that is substantially natural, protected from the wind and excessive changes in weather, while contributing to the control of the micro-climate of the “Open Mall”, monitoring and mitigating the temperature, quality and humidity of the air. Installations are also planned that will use the temperature of the water provided by the geothermal uptake system, both in static and dynamic forms (jets of water, ponds, fountains and small waterfalls), as well as elements for shading and filtering and additional screens and protections against radiation and ventilation coming from outside (gazebos, arbours, pavilions and local architectural elements integrated with the courtesy signage and the internal urban décor).
The “natural” elements will be combined and utilized through mechanisms that will allow for the passive climate control of the spaces. For example, the greenhouse principle will be exploited during the winter months thanks to the heat of the sun being captured and maintained thus eliminating the negative effects produced by wind and fog. In the Open Mall the internal temperature can also be mitigated and temperatures produced that are always higher than the external ones, as well as thermo-hydrometric characteristics that are midway between the completely open external areas and those designated for shops, leisure or other uses. During the summer months, the internal temperatures will remain average thanks to the limited solar factor chosen, and the heat loads resulting from sun rays will be limited thanks to the shading and solar filters included in the roof. To reduce the heating effect of sun rays, in the internal spaces, the refreshing effects of the water and the “active” positive effects of the greenery will be exploited, while humidity levels and ventilation will be controlled using renewable resources (ground water, for example).
An environment so created ensures that the final user benefits from an average temperature that is in between the noticeably artificially air conditioned environment of a traditional closed mall, and an entirely uncontrolled area that is completely exposed and open, typical of “Outlet” or “Retail Park” type shopping centers.
The project for the comfort conditions of the environment will be illustrated in a scientifically realistic way through simulations obtained using sophisticated technologies (such as CFD software, for example) used to design the most advanced “organic” architecture in the world. Elaborate visual and acoustic technical assessments, prepared and developed during the actual project phase, were also performed.
The **economic and social sustainability** of the Caselle Open Mall is quite evident in terms of new jobs and new retail, leisure, and entertainment offerings. The project will result in new local services, including of an infrastructure nature, thanks to the construction of new roads and the upgrading of the existing road systems.

Objectives of the installed plant systems

- Respecting the environment and the local area
- Optimizing planning solutions
- Reducing energy and drinking water needs
- Applying the principles of environmental sustainability
- Using renewable energy sources

The pursuit of the project objectives led to the selection of a private geothermal system based on outlet shafts for extracting groundwater as the main energy source for air conditioning the center. The building complex will have an Energy Center, an energy production station from which a system consisting of a “liquid ring” departs used by the various buildings to extract energy for heating and cooling. Groundwater is used thermally without modifying it in any way from a chemical or sensory view point: only the fluid temperature is used through heat exchangers that permit it to act on the temperature of the liquid ring.

The plant engineering system chosen ensures:

- substantial savings in primary energy;
- a significant reduction in pollutants being released into the atmosphere.

The proposed plant engineering system, based on the utilization of groundwater, guarantees a reduction in primary energy requirements of approximately 10% versus a traditional system of boilers and refrigeration units, and a reduction in CO_2 emissions of about 10%.
The water used to make the plant work, as a result of its characteristics remaining unchanged, ends up in the irrigation network used by local agricultural. This allows for the resource's sustainable use to be maximised and also avoids waste.
Groundwater is not only used to air condition the complex, but also for various other civil, non-potable needs. In fact, during periods of drought, it is used to top-up the rain water collection tanks located within the complex; to cover the irrigation and maintenance requirements of the green areas; to cover the toilet discharge requirements; and finally, to cover the requirements of the thermal evaporation tower networks. These uses result in a reduction in the consumption of potable water of approximately 113,000 m^3 per year.

Caselle Open Mall green spaces
The Caselle Open Mall project includes approximately 36,000 m^2 of green space, or the equivalent of nearly 6 football fields. The goal is to integrate the project with the local landscape thanks to its continuity with the adjacent rural countryside. The interrelationship between the green areas and the adjacent countryside is in fact quite evident from various perspectives, both with reference to the view of the users of the airport during landing and/or take off, and with reference to the view from higher viewpoints with respect to the ground level, consisting of the road infrastructure in the project and the adjacent airport buildings.
The green areas also provide benefits to the building system in terms of energy efficiency thanks to the greater protection and thermal insulation they generate, the mitigation of the environmental impact and water regulations through storm water drainage. The green areas which cover a large surface area will be treated as intensive green roofs with hanging or technological gardens planned that will also include greenhouses that are heated using photovoltaic energy. This type of green roof (garden) may be part of a training pathway with educational value that allows for the experimentation of practical skills based learning by transcending the limits of face-to-face learning.

AZIENDA AGRICOLA "LA BOLLINA"

Love for land and respect for the environment, workers and consumers.
These are the underlying principles that led to the incorporation of "La Bollina" into the Aedes Group structure.
The wine-making business "La Bollina" was established in 2009 in the estate bearing the same name, the time-honoured home of the Marquis Figari of Genoa. Following the planting of a new vineyard in March 2017, "La Bollina" now covers approximately 32 hectares of productive land on which the following grape varietals are grown: Cortese di Gavi, Chardonnay, Sauvignon Blanc, Barbera and Nebbiolo.
The wine cellar and the bottling and packaging lines are equipped with the most modern wine-making equipment.
The farming company is grounded upon the core value of respect for the land and for people; for this reason, it has chosen to make significant investments in greater sustainability of human resources and the environment in which it operates.
With regard to human capital, its workforce in 2017 consisted of six resources (five workers and one administrative employee), whose professional career is enhanced by investments in technical and occupational health and safety training.

To ensure the sustainability of the territory in which it operates, the farming company is also engaged on multiple fronts in the innovation of the operating phases and processing technologies. After obtaining ISO 9001/2015 certification in December 2016, in November 2017 the farming company was audited to validate the certification. The audit did not identify any non-conformities and therefore certification was officially awarded. The management system was considered effective and in conformity to the standard. In particular, the report stated that “the management system is well calibrated to the actual needs of the company” and “the risk analysis updates/implementation provide a good level of detail”.
“La Bollina” also pays the utmost attention to the quality of vineyard processing with PSR 214, a measure of attention to product quality and the reduction of environmental impacts. Generally speaking, the PSR14 measure supports those farmers who adopt sustainable technologies, by granting a bonus per hectare, which leads to a multi-year commitment by the beneficiary to fulfil environmental obligations. It should be noted that because of the adverse weather conditions during the agricultural year (spring frosts and summer drought), the 2017 harvest was severely impacted quantity-wise, even if it was excellent from a quality point of view. This will have a negative impact on sales in 2018, since the Company did not engage in “various types” of actions that could have minimized the damage, consistent with the ethical, transparency and business integrity criteria adopted. Activities leading up to the new accommodation/production facilities continued in 2017, with the first drafts of the layout.

Consumers and sales channels
La Bollina is dedicated to various types of sale to satisfy multiple market segments and provide a premium product.
Clients can be split up into the following categories.

- **Ho.re.ca. Italy.** This term (acronym for **Ho**tellerie-**Re**staurant-**Ca**fè) is used to indicate the distribution of a product through hotels, restaurants, cafès/catering, distinguishing it from distribution through large-scale retailers. Quantities are generally small; customers are identified by the agent network or are direct customers (meaning they are directly managed by the company through personal acquaintances). This type of distribution is used to promote the brand throughout the country, but may pose an insolvency risk with regard to the customer itself. Prices are set out in an annual price list (canvass) that includes discounts based on volumes ordered.
- **Large-scale retailers**. This is a modern retail selling system that is guaranteed by a network of supermarkets and other chains of intermediaries of different types. It represents the evolution of the individual supermarket, which in turn is the development of the traditional store. For this channel, the company generally offers specifically designed product lines that mainly differ in their packaging. Prices are set through annual framework agreements that include discounts and promotions in certain periods of the year. Generally the orders are numerically significant, prices are lower than those offered in other channels but payments are normally on time.
- **Foreign market.** For medium-sized producers of lesser known wines, or the medium-high segment, the best way of accessing foreign markets is still the specialized importer/distributor which funnels the product to specialized retailers and to the Ho.Re.Ca channel. Prices vary based on the importer’s country, are generally profitable, payment is almost always in advance, and shipping is paid by the buyer. In the majority of cases, the importer requires personalized labels.
- **Companies and private individuals.** These customers buy directly from the cellar. The former for specific occasions (gifts for the Christmas holidays for example), and the latter during visits to the winery or at wine events. Quantities are generally small and prices medium to high. The sales, in relative terms, provide the highest margin to the company, are not subject to sales commissions, shipping expenses or default risk. To boost awareness of the quality of the local product among final customers, in 2017 a company Wine Shop activity was implemented through themed events promoting wines.

La Bollina aims in the long term to ensure the increase in foreign sales and those of the new store, gradually reducing sales to Large Retailers. The foreign market for wine may represent the centerpiece for growth in the sector. The possibility of presenting a broader portfolio of products could transform **“La Bollina”** into a sort of platform where potential customers can find wines of interest from across Italy, from Piedmont to Tuscany, and Puglia to Campania. “La Bollina” will thus become the customer’s sole representative and partner both from a commercial and logistics-wine viewpoint. Hence the creation of Bollina S.r.l. in 2015 (a company whose majority shareholder is Aedes SIIQ, a **“pure” trading company** that, by offering an extensive portfolio of products, not only generates revenue for itself, but also distributes the products historically owned by Società Agricola La Bollina S.r.l.).
The mutual benefits of the two entities (farming and trading) can be summarized by the fact that the products produced by Società Agricola La Bollina S.r.l. are expanding into new areas since they are proposed along with the trading company’s products, especially in those markets in which the penetration of their wines (Gavi DOCG first and foremost) is significantly skewed in favour of wines that are historically more established (i.e. wines from Tuscany and Puglia).
From an economic point of view, Società Agricola La Bollina S.r.l. has found a source of revenue in bottling and logistics operations that are commissioned by the trading company.
The trading company leverages the **know-how** gained in recent years from Società Agricola La Bollina S.r.l., benefiting from being able to provide a logistics platform and modern wine-making equipment during the start-up phase.

Premium products
“La Bollina” stands on a territory abounding with natural wealth. Its vineyards, in fact, produce four varietals of grapes: Gavi, Chardonnay, Sauvignon Blanc, Barbera and Nebbiolo, which produce seven different wines and labels. In 2017, approximately 200,000 bottles were sold in the various channels, a positive result that expresses the high value of a product from Piedmont.
Attesting to its excellence, “La Bollina” achieved numerous accolades in 2017, both for the wines it produces and for the wines it bottles for Bollina S.r.l., proof of its commitment that is sustainably supporting the community and the territory in which it operates:

- Decanter World Wine Awards;
- Mundus Vini, the grand international Wine Award;
- Concours Mondial De Bruxelles, a United Nations of Fine Wines.

3.6 Responsibility in property management

Construction process

Cutting-edge technologies

Destination Center

Smart city

MANAGEMENT OF PROPERTY ASSETS

Property assets are managed internally by the **Property and Facility Management** Department, created in 2017 following the decision by the Aedes Group to insource the Property & Facility service for its property portfolio. This department is responsible for the administrative, technical and maintenance management of the numerous property assets held by the Group which include office, commercial and residential use properties.

Property & Facility Management
The Department develops and manages every property enhancement and utilization path set by Asset Management, dealing with the administrative, property and maintenance technique management of the assets forming the property portfolio of the Group. The Department holds the legal, administrative, technical and functional skills needed to manage every type of lease or rental relationship. It also manages the payment of all the property-related taxes, and the task of verifying correct application of tax rates and tax categories. It takes stock of the assets and develops the specifications for their safekeeping.
The Department works side by side also with the internal area of the Company - **Investment & Asset Management** - and its leadership in order to provide maintenance activities on time and on budget. Lastly, it plays a significant role in the selection of suppliers and contractors used in maintenance operations for the implementation of assigned works, in accordance with Policies, Regulations and procedures, ensuring compliance with the provisions contained in Legislative Decree no. 231/2001.

Property & Facility Management activities

- Taking charge of the property
- Intervention planning services, drafting budget proposals and technical control
- Administrative management of active relationship with lesses and passive relationship with suppliers/contractors
- Management of the maintenance activities of the construction parts, structural and plant including associated technical procedures, administrative and authorisation
- Tax Management (IMU, taxes and charges imposed on real estate)
- Management of users and connections
- Management reports on real estate insurance and handling any claims
- Management of real estate units not leased and services related to the common areas
- Administrative archive documentation of the Property Management
- Technical reporting and support activities
- Management of loans to the tenants
- Emergency management and safety

In addition to the above activities, **Property & Facility Management**, together with **Investment & Asset Management**, manage, control and monitor the direct coordination of the following activities carried out by the relevant subjects in charge:

- Drafting of the executive plan
- Purchasing and Procurement Process
- Performance of the work process
- Relations with third parties during the performance of the work
- Testing, acceptance and final certification of the work

These departments, in the ordinary use of a building, also manage a large number of services, processes and activities for the building itself, its spaces and the people who use them.

In detail, they directly control and monitor the coordination of the following activities carried out by the relevant subjects in charge:

Preventive maintenance and corrective services of civil and installation works	Activities for the acquisition of static and energy data
Cleaning common parts	Monitoring the status of regulatory compliance
Extermination and disinfestation	Surveillance and measure of efficiency of the systems and in particular those of security
Surveillance and reception service	Possible extraordinary emergency maintenance work
Maintenance of green areas	Any other reporting activities

Property assets under development are, instead, managed within the Company, thanks to **Project Management**, the Department that provides support and coordination of activities contributing to the implementation of work along the building chain.

Project Management
Project Management plans and manages, from a technical and economic perspective, construction and related activities in order to support the Group's property development interventions.
It works side by side with the Company's internal areas, such as Investment & Asset Management and Investment & Development Management and the relevant Departments, in the planning phases of operations, to ensure the feasibility of their interventions on time and on budget.
Lastly, it plays a significant role in the selection of suppliers and contractors for the implementation of assigned works, in accordance with Policies, Regulations and procedures, ensuring compliance with the provisions contained in Legislative Decree no. 231/2001.

From planning and construction up to the verification of the completion of works and technical-bureaucratic testing, the Department monitors all activities and ensures performance quality and cost control.
The activity develops at an early stage, with the drafting of a specific analysis, and then continues with appropriate site audits, by preparing appropriate reports, certification of the "State of Progress of Work" and final tests on work completion.
Additionally, it assists **Investment & Development Management** in its project coordination activities aimed at obtaining permits to start construction work.

Investment & Development Management
This is a key role in the Company, which is responsible for planning, directing and coordinating the activities and for performance in terms of the enhancement of property development projects in the portfolio.
An area strongly connected with all the business phases and with various internal and external players, such as advisors, financial entities involved and retailers, with the aim of optimizing property development enhancement and promoting retail property development projects.

PROPERTY TECHNOLOGICAL INNOVATION

Aedes SIIQ is a state-of-the-art technology user and is aware that this type of investment will lead to an improvement in the quality of its properties, mainly in terms of energy performance. In 2016 and 2017, in fact, activities were undertaken on the environmental certification of properties under development, with the support of specialized architectural firms, which will continue in 2018.
The Group's objective is to implement a sustainability strategy through plans based on building and town-planning redevelopment and on the preservation of architectural quality, investing in research for the growth of property value. A sustainable approach helps maintain the value of property assets over time, especially within the frame of the Smart City, implementing structural and infrastructural innovations and generating added value for the community.
The certification of environmental sustainability is a process that includes an analysis on the evaluation of a building as a whole, not only in terms of energy consumption, but in particular in terms of its impact on the outside world, the health and well-being of its occupants and the overall ecosystem. The environmental sustainability certification protocols are based on qualitative and quantitative methods on the elements of the building, whether civil/architectural or plant. With regard to energy efficiency initiatives, given the development strategy adopted and the targets set, the Group makes use of voluntary certification schemes for energy efficiency and the environmental footprint assessment of buildings such as the **ITHACA Protocol** (Institute for Innovation and Transparency in Procurement and for Environmental Compatibility) and the **BREEAM** (Building Research Establishment Environmental Assessment Method) Protocol Assessment for sustainable buildings.
The Caselle Open Mall was developed based on a series of decisions aimed at combining an interest in protecting the environment and the mere interest of the property transaction itself. In fact, business can and must contribute to the transition towards a sustainable model by reviewing a series of values that are now obsolete and therefore no longer applicable to the current scenarios or the market.

ITHACA Protocol
The ITHACA Protocol is an assessment tool on energy and environmental levels of buildings. Among the most widely used assessment systems, it allows performance audits on a building, not only in terms of energy consumption and energy efficiency, but also taking into account its impact on the environment and on human health, thus facilitating the implementation of increasingly innovative buildings with zero impact, reduced water consumption and materials that produce low energy consumption, while guaranteeing high comfort. The Protocol also guarantees the objectivity of the assessment through the use of indicators and monitoring methods which comply with the technical standards and relevant national legislation. It is, therefore, a 360° sustainability tool that contributes to the increase in value of the properties of Aedes SIIQ.

BREEAM Assessment Protocol for eco-sustainable buildings
The BREEAM Protocol - Building Research Establishment Environmental Assessment Method (BREEAM) - is a voluntary building assessment protocol set up in the United Kingdom more than twenty years ago to assess the environmental performance of buildings. This certification system uses recognized methods of assessment configured according to specific benchmarks, to verify the planning, construction and use of the property. The criteria cover different categories, from managing resources to ecology, and include aspects related to the use of energy and water, the internal environment, such as health and well-being, pollution, transport, materials, waste, ecology and management processes.
It is a green and environmentally friendly building process, which guarantees and confirms the path towards sustainability of the Aedes SIIQ Group.

In other cases, investment in technological innovation can be demanded by the developments in industry regulations, while in other cases it can be induced by the needs and demands of the tenants or the occupants, such as home automation.
An important feature of technological development is the planning in **BIM - Building Information Modeling**, a ground-breaking method for optimizing the planning, construction and management of buildings thanks to a software that allows 3-D project planning, from initial design to subsequent development through a specific database. Use of this tool, although not compulsory yet in Italy, is already so in some EU countries. In 2017, the Group explored the possibility of BIM design for buildings only, but the aim is also to schedule road system planning with this tool.
The decision was taken to adopt BIM planning for the Caselle project, as it is a tool that provides added value and ensures greater possibility of controlling the planning phases, future management and maintenance of the Center.

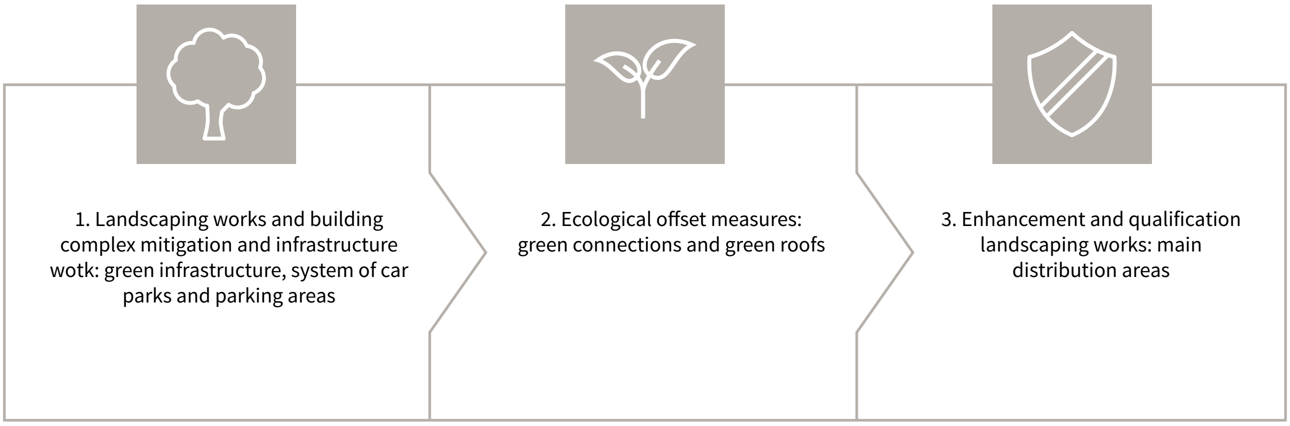
BIM – Building Information Modeling
Building Information Modeling is a method for optimizing the planning, construction and management of buildings through the use of software. It enables relevant data of a building to be collected, combined and connected digitally, creating a virtual construction which is also viewable as a 3-D geometric model.
It is a model used in the construction industry for planning and construction (architecture, engineering and technical systems) as well as in facility management.
A technological support to improve the planning, design, construction and management of Aedes SIIQ buildings, generating added value for the core business.

ACCESSIBILITY AND VALUE IN USE OF STRUCTURES: CASELLE PROJECT

The Group has the objective of a balanced and sustainable development of its activities, creating strong ties with the territory based on transparency, fairness, integrity and ethics.
Aedes SIIQ is aware that the planning development of its structures must take into account the relationship between the territory and its social, economic and cultural milieu. To ensure excellent value in use of the structures, it places priority on the needs of the community that will use these spaces, and incorporates these considerations in its strategic business plans, with the intention of developing a smart city with state-of-the-art infrastructure.
Accessibility to buildings is a key value for the Group, which is integrating in its business values an experiential concept of property which transcends planning and construction to embrace the society and lifestyle within the community.
For the new **Caselle project**, the concept in question is that of a “destination center”, new centers where guests can spend their leisure time by combining shopping and entertainment experiences.
The project involving the integration and landscape and agronomic enhancement of the center, part of a broader business park, develops, in a strategic and multidisciplinary perspective, the innovative approach that guides preliminary work planning, conceived as an opportunity for rebuilding the environment and landscape, with the aspiration of promoting a new culture that generates positive impacts on the territory.
The Aedes SIIQ Group intends to pursue this new business approach with several objectives:

- encouraging the creation of an overall unit integrated with the surrounding landscape;
- bringing out the specific identity of each area identified in full compliance with the overall harmony;
- improving the quality of outdoor spaces through simplicity and effectiveness;
- improving directions and use through readable spaces and care of pathways;
- offering hospitality, comfort and safety to visitors.

The project is divided into three main phases, developed in close coordination with the promoter and the planning team:



The main objective of the intervention is to promote an innovative model that closely integrates the various components, capable of triggering economic processes and recognition by the user.
The area covered by the new multi-purpose park of the new Caselle project is, from the perspective of road network and public transport, a key hub not only for the Municipality of Caselle, but also for the entire metropolitan area of Turin.
The added value brought by the project will be the result of the synergy created from the consolidation of existing services, the strengthening of others and the inclusion of new services such as cycling paths and Movicentro.

MOVICENTRO Project
The Movicentro project involves the network of interchanges where the different systems of public and private transport converge. It is a qualified project for the reorganization and revival of public transport, with the aim of spreading equitable access and promoting and implementing a regional infrastructure network in support of the various means of transport, both public and private. A full-scale promotion of sustainable mobility and a transport system on a human scale, making it rapid and easy for travellers to get around.

A meticulous typological-architectural analysis of the town-building fabric of the centre of Turin was performed, with particular attention given to Liberty style architecture from the early 20th century which represents the baseline for navigating the layout of the Caselle Open Mall.
The Caselle Open Mall was designed to be a welcoming place for families, fit for children and their parents. In fact, a partnership for its design was entered into with Reggio Children.

Reggio Children S.r.l.
Reggio Children S.r.l., International Center for the Defence and Promotion of the Rights and Potentials of All Children is a mixed public-private company established in 1994 to promote and spread quality education worldwide based on the educational experience of the Municipal Infant-Toddler Centers and Preschools of Reggio Emilia which were named the best in the world in the 1990s by Newsweek magazine. The Reggio Emilia method is an education philosophy that considers the child and, in general, all people as the bearers of great development potential. Its objective is to improve the lives of children and communities.

Thanks to this partnership, sought specifically for ethical and social reasons, particular attention was paid during the design phase to the development of a generally high level of environmental comfort overall, but especially for those spaces and areas dedicated to families and children.

Great care was taken in designing:

- child-friendly footpaths;
- child-friendly methods of communication;
- playgrounds;
- refreshment areas;
- areas dedicated to mothers and their children;
- child-friendly restrooms and toilets;
- comfortable diaper changing areas;
- family and children areas in the food court.

The ateliers, organized regularly in the urban mall area and the food court, allow children to use new materials and languages to have different view points. This will also allow them to have their hands, thoughts and emotions all active at the same time, thus honing their expressiveness and creativity in both an individual and social dimension.
This philosophy will be the driver in every area in which child care assistance is provided, namely in the playgrounds and the nursery.

3.7 Reporting standard used

The Aedes Group has prepared this Sustainability Report for the second year, with the aim of setting a path of increasingly transparent communication of the performance achieved by the Group from a sustainability perspective in 2017.
"Sustainability" is the ability of an organization to achieve the development of its business in compliance with the values of environmental and social compatibility, participating in the definition of well-being and progress, with positive repercussions on all its stakeholders.
This report has been prepared in accordance with the guidelines "GRI Sustainability Reporting Standards" published in 2016 by the Global Reporting Initiative (GRI), in accordance with the application-level "Core". The disclosure is limited to the areas identified as material (i.e. significant) for the Group and its stakeholders in terms of ESG - Environmental Social Governance - impacts.

The Sustainability Report relates to the Aedes Group and the data collection scope is restricted to the following companies:

- Aedes SIIQ S.p.A.
- Bollina S.r.l.
- Petrarca Fund
- Redwood Fund
- Novipraga SIINQ S.p.A.
- Pragafrance S.ar.l.
- Pragaquattro Center SIINQ S.p.A.
- Pragaotto S.r.l.
- Pragasette S.r.l. in liquidation
- Pragaundici SIINQ S.p.A.
- Praga Res S.r.l.
- Sedea SIIQ S.p.A.
- Satac SIINQ S.p.A.
- Società Agricola La Bollina S.r.l.

The reporting period refers to the period from 1st January 2017 to 31st December 2017 and, where possible, by way of comparison, data relating to prior periods are shown.
The document contains appropriate notes if the data collection scopes are different from those indicated in the present methodological note (information relating to environmental data).

TABLE OF GRI INDICATORS

GRI Standards		Chapter	Notes
GENERAL DISCLOSURES			
Organizational profile			
GRI 102-1	Name of the organization	3.7	
GRI 102-2	Activities, brands, products, and services	2.3	
GRI 102-3	Location of headquarters	3.7	
GRI 102-4	Location of operations	3.5	
GRI 102-5	Ownership and legal form	2.3	
GRI 102-6	Markets served	2.11, 3.5	
GRI 102-7	Scale of the organization	1.3, 2.3	
GRI 102-8	Information on employees and other workers	3.4	
GRI 102-9	Supply Chain	3.3	
GRI 102-10	Significant changes to the organization and its supply chain	3.7	
GRI 102-11	Precautionary principle or approach	2.11, 3.1	
GRI 102-12	External initiatives	3.1	
GRI 102-13	Membership of associations	3.3	
Strategy			
GRI 102-14	Statement from senior decision-maker	1.1	
Ethics and integrity			
GRI 102-16	Values, principles, standards, and norms of behavior	3.1	
Governance			
GRI 102-18	Governance structure	1.2, 2.3	
GRI 102-22	Composition of the highest governance body and its committees	3.4	
GRI 102-24	Nominating and selecting the highest governance body	2.14, 3.4	
GRI 102-25	Conflicts of interest	3.1	
Stakeholder engagement			
GRI 102-40	List of stakeholder groups	3.1	
GRI 102-41	Collective bargaining agreements	3.4	
GRI 102-42	Identifying and selecting stakeholders	3.1	
GRI 102-43	Approach to stakeholder engagement	3.1	
GRI 102-44	Key topics and concerns raised	3.1	
Reporting practice			
GRI 102-45	Entities included in the consolidated financial statements	3.7	
GRI 102-46	Defining report content and topic boundaries	3.1	
GRI 102-47	List of material topics	3.1	
GRI 102-48	Restatements of information	3.7	
GRI 102-49	Changes in reporting	3.7	
GRI 102-50	Reporting period	3.7	
GRI 102-51	Date of the most recent report	3.7	
GRI 102-52	Reporting cycle	3.7	
GRI 102-53	Contact point for questions regarding the report	3.7	
GRI 102-54	Claims of reporting in accordance with the GRI Standards	3.7	
GRI 102-55	GRI Content Index	3.7	
GRI 102-56	External assurance	-	The Sustainability Report will not be subject to external assurance

GRI Standards		Chapter	Notes
SPECIFIC STANDARD DISCLOSURE			
ECONOMIC PERFORMANCE			
Material Topic – Economic Performance			
GRI 103-1	Explanation of the material topic and its boundary	3.2	
GRI 103-2	The management approach and its components	3.2	
GRI 103-3	Evaluation of the management approach	3.2	
GRI 201-1	Direct economic value generated and distributed	3.2	
GRI 201-4	Financial assistance received from government	3.1	The Aedes Group did not receive any funding from Public Administration
Material Topic – Market Presence			
GRI 103-1	Explanation of the material topic and its boundary	3.2	
GRI 103-2	The management approach and its components	3.2	
GRI 103-3	Evaluation of the management approach	3.2	
GRI 202-2	Proportion of senior management hired from the local community	3.4	
Material Topic - Procurement Practices			
GRI 103-1	Explanation of the material topic and its boundary	3.3	
GRI 103-2	The management approach and its components	3.3	
GRI 103-3	Evaluation of the management approach	3.3	
GRI 204-1	Proportion of spending on local suppliers	3.3	The supplier data collection system will be extended to the entire scope of the Group by 2019
Material Topic - Anti-corruption			
GRI 103-1	Explanation of the material topic and its boundary	3.1	
GRI 103-2	The management approach and its components	3.1	
GRI 103-3	Evaluation of the management approach	3.1	
GRI 205-3	Confirmed incidents of corruption and actions taken	-	In 2017, no complaints of corruption cases were reported
Material Topic - Anti-competitive Behavior			
GRI 103-1	Explanation of the material topic and its boundary	3.1	
GRI 103-2	The management approach and its components	3.1	
GRI 103-3	Evaluation of the management approach	3.1	
GRI 206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	-	In 2017, no legal actions were instigated in response to anti-competitive and anti-trust conduct and monopolistic practices
ENVIRONMENTAL TOPICS			
Material Topic – Materials			
GRI 103-1	Explanation of the material topic and its boundary	3.5	
GRI 103-2	The management approach and its components	3.5	
GRI 103-3	Evaluation of the management approach	3.5	
GRI 301-1	Materials used by weight or volume	3.5	
Material Topic – Energy			
GRI 103-1	Explanation of the material topic and its boundary	3.5	
GRI 103-2	The management approach and its components	3.5	
GRI 103-3	Evaluation of the management approach	3.5	
GRI 302-1	Energy consumption within the organization	3.5	
GRI 302-4	Reduction of energy consumption	3.5	

GRI Standards		Chapter	Notes
Topic – Water			
GRI 103-1	Explanation of the material topic and its boundary	3.5	
GRI 103-2	The management approach and its components	3.5	
GRI 103-3	Evaluation of the management approach	3.5	
GRI 303-1	Water withdrawal by source	3.5	
Material Topic – Biodiversity			
GRI 103-1	Explanation of the material topic and its boundary	3.5	
GRI 103-2	The management approach and its components	3.5	
GRI 103-3	Evaluation of the management approach	3.5	
GRI 304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	3.5	
Material Topic – Emissions			
GRI 103-1	Explanation of the material topic and its boundary	3.5	
GRI 103-2	The management approach and its components	3.5	
GRI 103-3	Evaluation of the management approach	3.5	
GRI 305-1	Direct (Scope 1) GHG emissions	3.5	
GRI 305-2	Energy indirect (Scope 2) GHG emissions	3.5	
Material Topic - Effluents and Waste			
GRI 103-1	Explanation of the material topic and its boundary	3.5	
GRI 103-2	The management approach and its components	3.5	
GRI 103-3	Evaluation of the management approach	3.5	
GRI 306-1	Water discharge by quality and destination	3.5	
GRI 306-2	Waste by type and disposal method	3.5	
Material Topic – Environmental Compliance			
GRI 103-1	Explanation of the material topic and its boundary	3.5	
GRI 103-2	The management approach and its components	3.5	
GRI 103-3	Evaluation of the management approach	3.5	
GRI 307-1	Non-compliance with environmental laws and regulations	-	In 2017, no significant fines were received
Material Topic – Supplier environmental assessment			
GRI 103-1	Explanation of the material topic and its boundary	3.5	
GRI 103-2	The management approach and its components	3.5	
GRI 103-3	Evaluation of the management approach	3.5	
GRI 308-1	New suppliers that were screened using environmental criteria	-	The supplier data collection system will be extended to the entire scope of the Group by 2019
SOCIAL TOPICS			
Material Topic – Employment			
GRI 103-1	Explanation of the material topic and its boundary	3.4	
GRI 103-2	The management approach and its components	3.4	
GRI 103-3	Evaluation of the management approach	3.4	
GRI 401-1	New employee hires and employee turnover	3.4	
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	3.4	

GRI Standards		Chapter	Notes
Topic - Labor/Management Relations			
GRI 103-1	Explanation of the material topic and its boundary	3.4	
GRI 103-2	The management approach and its components	3.4	
GRI 103-3	Evaluation of the management approach	3.4	
GRI 402-1	Minimum notice periods regarding operational changes	3.4	
Material Topic - Occupational Health and Safety			
GRI 103-1	Explanation of the material topic and its boundary	3.4	
GRI 103-2	The management approach and its components	3.4	
GRI 103-3	Evaluation of the management approach	3.4	
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	3.4	
GRI 403-3	Workers with high incidence or high risk of diseases	-	In 2017, no occupational diseases were reported
Material Topic - Training and Education			
GRI 103-1	Explanation of the material topic and its boundary	3.4	
GRI 103-2	The management approach and its components	3.4	
GRI 103-3	Evaluation of the management approach	3.4	
GRI 404-1	Average hours of training per year per employee	3.4	
Material Topic - Diversity and Equal Opportunity			
GRI 103-1	Explanation of the material topic and its boundary	3.4	
GRI 103-2	The management approach and its components	3.4	
GRI 103-3	Evaluation of the management approach	3.4	
GRI 405-1	Diversity of governance bodies and employees	1.2, 2.3, 3.4	
GRI 405-2	Ratio of basic salary and remuneration of women to men	3.4	
Topic - Non-discrimination			
GRI 103-1	Explanation of the material topic and its boundary	3.4	
GRI 103-2	The management approach and its components	3.4	
GRI 103-3	Evaluation of the management approach	3.4	
GRI 406-1	Incidents of discrimination and corrective actions	-	In 2017, no incidents related to discriminatory practices were reported
Topic - Rights of Indigenous Peoples			
GRI 103-1	Explanation of the material topic and its boundary	3.3	
GRI 103-2	The management approach and its components	3.3	
GRI 103-3	Evaluation of the management approach	3.3	
GRI 411-1	Incidents of violations involving rights of indigenous peoples	-	In 2017, no incidents of violation of the rights of local communities were reported
Material Topic - Local Communities			
GRI 103-1	Explanation of the material topic and its boundary	3.3	
GRI 103-2	The management approach and its components	3.3	
GRI 103-3	Evaluation of the management approach	3.3	
GRI 413-1	Operations with local community engagement, impact assessments, and development programs	3.3	

GRI Standards		Chapter	Notes
Material Topic - Supplier Social Assessment			
GRI 103-1	Explanation of the material topic and its boundary	3.4	
GRI 103-2	The management approach and its components	3.4	
GRI 103-3	Evaluation of the management approach	3.4	
GRI 414-1	New suppliers that were screened using social criteria	-	The data collection system on the criteria for the assessment of suppliers will be extended to the entire scope of the Group (by 2019)
Topic – Public Policy			
GRI 103-1	Explanation of the material topic and its boundary	3.4	
GRI 103-2	The management approach and its components	3.4	
GRI 103-3	Evaluation of the management approach	3.4	
GRI 415-1	Political contributions	-	The activities of Aedes SIIQ do not envisage the funding of political parties
Material Topic - Marketing and Labeling			
GRI 103-1	Explanation of the material topic and its boundary	3.2	
GRI 103-2	The management approach and its components	3.2	
GRI 103-3	Evaluation of the management approach	3.2	
GRI 417-3	Incidents of non-compliance concerning marketing communications	-	In 2017, no complaints regarding cases of noncompliance were reported
Material Topic – Socioeconomic Compliance			
GRI 103-1	Explanation of the material topic and its boundary	3.1	
GRI 103-2	The management approach and its components	3.1	
GRI 103-3	Evaluation of the management approach	3.1	
GRI 419-1	Non-compliance with laws and regulations in the social and economic area	-	In 2017, no significant fines were received for non-compliance with laws or regulations

Table of comparison: GRI standards – EPRA Sustainability Performance Measures			
EPRA Sustainability Performance Measures		**GRI Standard**	**Chapter**
Environmental indicators			
Elec – Abs	Total electricity consumption	302-1	3.5
Elec – LfL	Like-for-like total electricity consumption	302-1	3.5
DH&C – Abs	Total district heating & cooling consumption	302-1	3.5
DH&C - LfL	Like-for-like total district heating & cooling consumption	302-1	3.5
Fuels – Abs	Total fuel consumption	302-1	3.5
Fuels – LfL	Like-for-like total fuel consumption	302-1	3.5
GHG-Dir-Abs	Total direct greenhouse gas (GHG) emissions	305-1	3.5
GHG-Indir-Abs	Total indirect greenhouse gas (GHG) emissions	305-2	3.5
Water-Abs	Total water consumption	303-1	3.5
Water-LfL	Like-for-like total water consumption	303-1	3.5
Waste-Abs	Total weight of waste by disposal route	306-2	3.5
Waste-LfL	Like-for-like total weight of waste by disposal route	306-2	3.5
Social			
Diversiti-Emp	Employee gender diversity	405-1	3.4
Diversity-Pay	Gender pay ratio	405-2	3.4
Emp-Training	Training and development	404-1	3.4
Emp-Dev	Employee performance appraisals	404-3	3.4
Emp-Turnover	Employee turnover and retention	401-1	3.4
H&S-Emo	Employee health and safety	403-2	3.4
H&S-Asset	Asset health and safety assessments	416-1	3.4
Comty-Eng	Community engagement, impact assessments and development programmes	413-1	3.3
Governance			
Gov-Board	Composition of the highest governance body	102-22	3.4
Gov-Selec	Nominating and selecting the highest governance body	102-24	2.14, 3.4
Gov-CoI	Process for managing conflicts of interest	102-25	3.1

4 FINANCIAL STATEMENTS AND EXPLANATORY NOTES OF THE AEDES GROUP

4.1 Consolidated Statement of Financial Position

(Euro/000)	Note	31/12/2017	of which related parties	31/12/2016	of which related parties
Assets					
Non-current assets					
Investment property	1	430,123		341,388	
Other tangible fixed assets	2	2,271		2,808	
Intangible fixed assets	3	72		59	
Investments in associates and joint ventures	4	40,254		40,462	
Available-for-sale financial assets	5	0		0	
Deferred tax assets	6	6,030		6,379	
Derivative financial instruments	7	45		230	
Financial receivables	8	12,576	12,502	13,650	13,566
Trade and other receivables	9	636		1,136	
Total non-current assets		**492,007**		**406,112**	
Current assets					
Inventory	10	50,158		56,330	
Trade and other receivables	9	21,592	3,132	27,045	6,232
Financial receivables	8	300	300	0	
Cash and cash equivalents	11	23,241	9,371	12,610	
Total current assets		**95,291**		**95,985**	
Total assets		**587,298**		**502,097**	

(Euro/000)	Note	31/12/2017	of which related parties	31/12/2016	of which related parties
Equity					
Equity attributable to the owners of the parent					
Share capital		212,945		212,945	
Treasury shares		(14)		(1,455)	
Fair value and other reserves		51,830		50,964	
Retained earnings/(losses carried forward)		38,777		4,847	
Profit/(Loss) for the year		9,663		29,107	
Total equity attributable to the owners of the parent	**12**	**313,201**		**296,408**	
Equity attributable to minorities	**13**	**(385)**		**6,953**	
Total equity		**312,816**		**303,361**	

Liabilities					
Non-current liabilities					
Payables to banks and other lenders	14	174,227	15,558	113,866	
Derivative financial instruments	7	283		605	
Deferred tax liabilities	6	3,709		3,921	
Payables for severance indemnity	15	1,073		1,047	
Provisions for risks and charges	16	5,069		5,973	
Tax payables	17	0		221	
Trade and other payables	18	434		2,093	1,472
Total non-current liabilities		**184,795**		**127,726**	
Current liabilities					
Payables to banks and other lenders	14	64,743	99	49,362	
Tax payables	17	731		1,454	
Trade and other payables	18	24,213	4,786	20,194	6,433
Total current liabilities		**89,687**		**71,010**	
Total liabilities		**274,482**		**198,736**	
Total liabilities and equity		**587,298**		**502,097**	

4.2 Consolidated Income Statement

(Euro/000)	Note	31/12/2017	of which related parties	31/12/2016	of which related parties
Income statement					
Revenue from sales and services	19	38,880	642	42,659	11,389
Other revenue	20	1,320	223	2,680	390
Change in inventory	21	(6,172)		(1,436)	
Costs for raw materials and services	22	(25,385)	(11,255)	(35,444)	(16,785)
Personnel expense	23	(5,920)	(91)	(5,350)	(56)
Other operating costs	24	(3,773)	778	(3,072)	(358)
Amortization, depreciation and impairment losses	25	(598)		(676)	
Fair value adjustments	25	20,874		29,773	
Write-downs and allocations	25	550		(1,794)	
Share of the result of companies measured at equity	26	(3,445)		3,009	
EBIT		**16,331**		**30,349**	
Financial income	27	940	605	937	839
Financial charges	27	(7,100)	(623)	(4,525)	
Profit before taxes		**10,171**		**26,761**	
Taxes	28	(420)		3,071	
Profit/(Loss) from continuing operations		**9,751**		**29,832**	
Gains/(Losses) after taxes from assets and liabilities held for sale	29	(375)		382	
Result for the year		**9,376**		**30,214**	
of which Profit/(Loss) attributable to minorities		(287)	-	1,107	-
of which Profit/(Loss) attributable to the owners of the Parent		**9,663**	-	**29,107**	-

4.3 Consolidated Statement of Comprehensive Income

(Euro/000)	Note	31/12/2017	31/12/2016
Comprehensive income statement			
Result for the year		**9,376**	**30,214**
Other items recognized in equity that will be reclassified to the income statement in a subsequent period:			
Change/Fair Value realized on financial assets available for sale		0	(516)
Other items recognized in equity that will not be reclassified to the income statement in a subsequent period:			
Actuarial gains/(losses)		101	(79)
Other comprehensive income for the year		101	(595)
Total comprehensive income for the year		**9,477**	**29,619**
of which attributable to minorities		(287)	1,107
of which attributable to the owners of the Parent		**9,764**	**28,512**
Earnings per share			
Base	30	0.03	0.09

4.4 Consolidated Statement of Changes in Equity

(Euro/000)	Share capital	Treasury shares	Legal reserve	Other for capital increase	Fair value reserve	Retained earnings/ (losses carried forward)	Result for the year	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total
01/01/2016	**212,945**	**(266)**	**2,231**	**48,705**	**490**	**(200)**	**5,174**	**269,079**	**6,241**	**275,320**
Allocation of 2015 result			28			5,146	(5,174)	0		0
Treasury shares held		(1,189)				6		(1,183)		(1,183)
Other movements and changes in the consolidation scope					26	(26)		0	(395)	(395)
Profit/(Loss) for the period							29,107	29,107	1,107	30,214
Other profit/(loss) recognized in equity					(516)			(516)		(516)
Actuarial (gains)/losses						(79)		(79)		(79)
Total comprehensive profit/(loss)					(516)	(79)	29,107	28,512	1,107	29,619
31/12/2016	**212,945**	**(1,455)**	**2,259**	**48,705**	**0**	**4,847**	**29,107**	**296,408**	**6,953**	**303,361**

(Euro/000)	Share capital	Treasury shares	Legal reserve	Other for capital increase	Fair value reserve	Retained earnings/ (losses carried forward)	Result for the year	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total
31/12/2016	**212,945**	**(1,455)**	**2,259**	**48,705**	**0**	**4,847**	**29,107**	**296,408**	**6,953**	**303,361**
Allocation of 2016 result			866			28,241	(29,107)	0		0
Treasury shares held		1,441				188		1,629		1,629
Other movements and changes in the consolidation scope						5,400		5,400	(7,051)	(1,651)
Profit/(Loss) for the period							9,663	9,663	(287)	9,376
Actuarial gains/(losses)						101		101		101
Total comprehensive income for the year					0	101	9,663	9,764	(287)	9,477
31/12/2017	**212,945**	**(14)**	**3,125**	**48,705**	**0**	**38,777**	**9,663**	**313,201**	**(385)**	**312,816**

4.5 Consolidated Statement of Cash Flows

(Euro/000)	31/12/2017	31/12/2016
Result - Group	9,663	29,107
Result - Minorities	(287)	1,107
Net (gains)/losses from the disposal of investments	375	(201)
Charges/(Income) from investments	3,445	(3,009)
Amortization and depreciation	598	683
Fair value adjustment of property assets	(20,874)	(29,773)
Write-down/Release of provisions for doubtful accounts and provisions for risks	(156)	2,045
Net financial income/(charges)	6,160	3,593
Current and deferred taxes for the year	299	(3,066)
Change in the provision for severance indemnity	(145)	(157)
Cash flows from inventory	4,336	667
Write-down of inventory	1,836	771
Change in trade and other receivables	(7,075)	(4,283)
Change in trade and other payables	15,708	(1,418)
Current and deferred tax payables	(6,596)	0
Income taxes paid net of reimbursements	5,445	(2,346)
Interest (paid)/received	(6,745)	(3,190)
Cash flow from operations	**5,987**	**(9,470)**
(Increases)/Decreases in investment property and other tangible fixed assets	(69,952)	(48,455)
Increases in intangible investments	(49)	(23)
Cash flows from sale/purchase of investments in subsidiaries	(2,005)	100
Net cash flow from available-for-sale investments	0	2,191
Cash flows from (increase) and decrease in investments	(2,005)	2,598
Change in other financial items	35	(21)
Cash flow from investing activities	**(73,976)**	**(43,610)**
Changes in payables to banks and to other lenders	76,991	(1,624)
Cash flow from purchase/disposal of treasury shares	1,629	(1,183)
Cash flow from financing activities	**78,620**	**(2,807)**
Change in net liquidity available	**10,631**	**(55,887)**
Cash and cash equivalents at beginning of period	**12,610**	**68,497**
Cash and cash equivalents at end of period	**23,241**	**12,610**

4.6 Introduction

Aedes SIIQ S.p.A. ("**Aedes**", the "**Company**" or "**Parent Company**"), founded in 1905, was the first real-estate company to be listed on the Milan Stock Exchange in 1924. Following a sweeping financial reorganization, concluded successfully at the end of 2014, and the merger in the second half of 2015 with Praga Holding Real Estate S.p.A. - a group well known for the development of the first designer outlet in Italy located in Serravalle Scrivia - today the Aedes Group has a new shareholder structure, a renewed management, and a competitive industrial project.

Following the decision to join the statutory and tax regime typical of listed property investment companies (so-called SIIQ/REIT Regime), Aedes switched to SIIQ/REIT status on 1st January 2016, adopting the name Aedes SIIQ S.p.A..

The financial statements and consolidated financial statements are audited by Deloitte & Touche S.p.A., pursuant to art. 14 of Legislative Decree no. 39 of 27th January 2010, and taking account of Consob recommendation of 20th February 1997.

The consolidated financial statements were approved by the Board of Directors of the Company on 14th March 2018.

BASIS FOR PREPARATION

The consolidated financial statements at 31st December 2017 have been prepared in accordance with the International Accounting Standards (IAS/IFRS) issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, and with the provisions issued under art. 9 of Legislative Decree 38/2005. The IFRS also include all the revised international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

Specifically, it is noted that the IFRS were consistently applied to all of the periods presented in this document. The financial statements have been prepared based on the conventional historic cost standard, except for the measurement of investment property at fair value and the financial assets and liabilities, including derivative instruments, in cases where the fair value method is applied.

The accounting and disclosure statements contained in this balance sheet have been prepared in compliance with IAS 1, pursuant to Consob Communication no. DEM 6064313 of 28th July 2006.

The financial statements have been prepared on a going concern basis. The directors, in fact, have assessed that there are no uncertainties regarding the ability of the Company and the Group to operate as a going concern, even on the basis of estimates contained in the section below "Main types of risk - Liquidity risk", to which reference is made.

The risks and uncertainties relevant to the business are described in the dedicated sections of the Directors' Report on Operations. The description of how the Group manages financial risks, including liquidity and capital, is contained in the section "Additional information on financial instruments and risk management policies of the notes".

The financial statements used for consolidation are those prepared by the administrative bodies of the individual companies, appropriately reclassified and adjusted, where necessary, to comply with the International Accounting

Standards (IAS/IFRS) and Group criteria.

These financial statements have been prepared using the as the reporting currency and all values are rounded to the nearest thousandth unless otherwise indicated.

The effects of transactions with related parties are shown in the income statement and statement of financial position, as well in as the relevant explanatory notes.

In preparing the consolidated financial statements at 31st December 2017, the same measurement and consolidation criteria adopted for the Consolidated Financial Statements at 31st December 2016 were used, except for the adoption of the new standards, amendments and interpretations in force as from 1st January 2017.

Accounting standards, amendments and IFRS interpretations applied as from 1st January 2017

The following accounting standards, amendments and IFRS interpretations have been applied by the Group for the first time as from 1st January 2017:

- On 29th January 2016, the IASB published "Disclosure Initiative (Amendments to IAS 7)" containing amendments to IAS 7. The document aims to provide clarification on how to improve disclosures on financial liabilities. Specifically, the amendments require entities to provide a disclosure that allows financial statements users to evaluate changes in liabilities arising from financing activities, including therein both changes arising from cash and non-cash changes. The amendments do not establish a specific format to use for disclosure. The amendments require an entity, however, to provide a reconciliation between the opening and closing balances for liabilities arising from financial activities. Entities need not provide comparative information relating to prior years. The adoption of these amendments had no impact on the Group's consolidated financial statements.

- On 19th January 2016, the IASB published "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)" containing amendments to IAS 12. The document aims to provide clarification on the recognition of deferred tax assets for unrealized losses in the measurement of available-for-sale financial assets under certain circumstances, and on the estimate of taxable income for future periods. The adoption of these amendments had no impact on the Group's consolidated financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union, not yet mandatory to apply and not adopted in advance by the Group at 31st December 2017

- On 28th May 2014, the IASB published IFRS 15 – Revenue from Contracts with Customers which, along with additional clarifications published on 12th April 2016, will replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard establishes a new model for revenue recognition, applicable to all of the contracts concluded with customers, except for those included in the scope of application of other IAS/IFRS standards such as leases, insurance contracts and financial instruments. The basic steps for the booking of revenue pursuant to the new model are:
  - identification of the contract with the customer;
  - identification of the performance obligations included in the contract;
  - pricing;
  - price allocation based on the performance obligations included in the contract;
  - the criteria for the recognition of revenue when the entity meets each performance obligation.

  The standard applies as from 1st January 2018. The amendments to IFRS 15 Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB in April 2016.

  The directors, following their review of the potential impacts arising from the introduction of the standard, do not believe the application of IFRS 15 to have a material impact on the amounts booked under revenue and on the relating disclosures in the consolidated financial statements of the Group, since Group revenue originates mainly in lease rent, which is covered by IFRS 16, in revenue and margins from property sales, and in revenue from property services. The Group will adopt a simplified transition approach without restating comparative data.

- On 24th July 2014, the IASB published the final version of IFRS 9 – Financial instruments. The document includes the results of the IASB project aimed at superseding IAS 39:
  - it introduces new criteria for the classification and measurement of financial assets and liabilities (together with the assessment of non-substantial changes in financial liabilities);
  - with regard to the impairment model, the new standard requires losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39), using supportable information, available without undue cost or effort, and including historic, current and forecast data;
  - it introduces a new hedge accounting model (broadening of the transaction types eligible for hedge accounting, changes in the accounting of forward contracts and options when included in a hedge accounting relationship, changes in the effectiveness test).

  The new standard must be applied to financial statements beginning on or after 1st January 2018.
  The following are the outcomes of the analyses on the potential impacts arising from the introduction of IFRS 9 on the consolidated financial statements of the Group.

Classification and measurement

Unlike derivative financial instruments that are measured at fair value as required under IAS 39, the Group measures loans, guarantees, receivables, cash and cash equivalents, and payables at cost.
In detail, the Group performed an in-depth analysis of the financial assets and liabilities to determine the impact from the first-time adoption of IFRS 9, taking into consideration the contractual cash flows of the financial instruments and the Group's business model. Based on the analysis, it was determined that the majority of the non-derivative financial assets at 31st December 2017 will be classified among the assets measured at amortized cost.

Impairment

IFRS 9 introduces the credit risk model for financial assets based on the expected credit losses, while IAS 39 uses the incurred losses model. The new expected credit losses model (ECL) may result in earlier recognition of losses on financial assets compared to what would be recognized under IAS 39. The new model applies to assets measured at amortized cost, those measured at fair value through other comprehensive income other from investments, commitments to provide loans and guarantees, which under IAS 39 fell within the scope of IAS 37, and assets deriving from contracts with customers that fall within the scope of IFRS 15.
The Group has reviewed the rules for determining the deterioration of the credit worthiness of the counterparties and the measurement of expected losses over a 12-month period.
With regard to trade receivables in the trade receivable portfolios held by the various Group companies, the Group will apply the simplified approach which estimates ECL on trade receivables using a provision matrix. Following the analyses performed for determining the expected credit loss, the impact on recorded trade receivables at 31st December 2017 would be less than Euro 500 thousand (gross of the tax effect).
For the measurement of loans, other receivables, guarantees, and cash and cash equivalents, the Group chose an approach based on the probability of default of the counterparties and the change in the credit risk of the counterparties. The Group determined an impact at 31st December 2017 lower than Euro 500 thousand (gross of the tax effect).

Hedge accounting

The aim of the new model introduced by IFRS 9 is to simplify hedge accounting, bringing it closer to the risk management activities and permitting the application of those rules to a high number of financial instruments that could qualify as hedges, as well as risk elements that could qualify as hedged items. The new standard does not cover macro hedges which are the subject of a separate IASB project.

Two approaches for first-time adoption are permitted under IFRS 9: i) use of the IFRS 9 chapter "General Hedge Accounting Model"; or ii) continued use of the hedge accounting rules under IAS 39 until the time when the IASB and the European Union have endorsed the new macro hedge accounting standard.
The Group will evaluate the possibility of applying the new rules for hedge accounting introduced by IFRS 9 as from 1st January 2018. Hedge accounting would be applied prospectively on the date of first application. Nevertheless, this aspect is currently being determined.

Other aspects of IFRS 9: amendments to liabilities
The accounting treatment of the amendments to financial liabilities that do not result in the derecognition of a liability introduced by IFRS 9 was confirmed by the IASB in July 2017. In these cases, it was established that only one rule for accounting exists that requires the recognition of a profit/loss in the income statement that corresponds to the change made to the amortized cost of the liability subject to amendment. The decision by IASB puts an end to the accounting practice (provided for in IAS 39) of distributing the profit or loss from the change over the contractual period of the changed liability through a prospective adjustment at the original effective interest rate.
Retrospectively applying the accounting clarification, from 1st January 2018, for changes in financial liabilities that do not result in derecognition (as they are not considered material) has no material impact on the Group.

- On 13th January 2016, the IASB published IFRS 16 – Leases, which will supersede IAS 17 – Leases, and the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
  The new standard provides a new definition of a lease and introduces a criterion based on the control (right of use) of an asset to distinguish leases from service contracts, identifying the following distinguishing factors: identification of the asset, right to replace the asset, right to obtain substantially all economic benefits deriving from use of the asset, and right to direct the use of the asset underlying the contract.
  The standard introduces a single lessee accounting model, by which an asset under a lease, including an operating lease, is recognized in assets with an offsetting financial liability. The model also provides the possibility of not recognizing as leases those contracts regarding low-value assets and leases with a term of 12 months or less. The standard, instead, introduces no material changes for the lessor.
  The standard applies as from 1st January 2019, but early adoption is allowed only for early adopters of IFRS 15 – Revenue from Contracts with Customers.
  Regarding lease contract payables, apart from a number of immaterial short-term office equipment rentals, the Group has a lease arrangement for a property located in Milan currently used as the Group's head office, and for various car parking spaces. Lease rent payables under these contracts up to initial maturity amount (non-discounted values) to approximately Euro 3.2 million.
  The Directors do not expect the introduction of the standard to have a material impact on the Group's booked equity and on the result for the year. The approach to adopt in the transition period will be defined in 2018.

Accounting standards, amendments and IFRS interpretations not endorsed yet by the European Union
At the date of these consolidated financial statements, the competent bodies of the European Union have not yet completed the endorsement process required for the adoption of the amendments and the standards described below.

- On 18th May 2017, the IASB issued IFRS 17 – Insurance Contracts, intended to supersede IFRS 4 - Insurance Contracts.
  The aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations deriving from insurance contracts issued. The IASB developed the standard to eliminate the inconsistencies and weaknesses of the existing accounting standards, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts, that an insurer holds.

The new standard also sets out reporting and disclosure requirements in order to improve comparability between entities from the same sector.
The Directors do not expect the Group's consolidated financial statements to be affected by the adoption of these amendments.

- On 20th June 2016, the IASB issued the document "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)" containing amendments to IFRS 2. The amendments provide a number of clarifications on the accounting for the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with a net settlement feature, and on the accounting for modifications to the terms and conditions of a share-based payment that change the classification from cash-settled to equity-settled. The amendments apply as from 1st January 2018.
The Directors do not expect the Group's consolidated financial statements to be materially affected by the adoption of these amendments.

- On 8th December 2016, the IASB published "Annual Improvements to IFRSs: 2014-2016 Cycle", adopting the amendments to the standards in the context of the annual process for their improvement. The main amendments regard:
  - IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. The amendment is applicable at the latest for financial years beginning on 1st January 2018, and regards the deletion of a number of short-term exemptions under section E3-E7 of Appendix E of IFRS 1, as the benefit of such exemptions is considered outdated.
  - IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice. The amendment clarifies that the option for a venture capital organization or other entity classified as such (such as a mutual fund or similar entity) to measure investments in associates and joint ventures measured at fair value through profit or loss (rather than the equity method) is carried out for each single investment on initial recognition. The amendment applies as from 1st January 2018.
  - IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the scope of IFRS 12, specifying that the disclosures required by the standard, with the exception of the disclosures under sections B10-B16, apply to all interests that are classified as held for sale, held for distribution to owners, or as discontinued operations in accordance with IFRS 5. The amendment applies as from 1st January 2017; however, since the amendment is still awaiting endorsement by the European Union, it was not adopted by the Group at 31st December 2017.

  The Directors do not expect the Group's consolidated financial statements to be materially affected by the adoption of these amendments.

- On 8th December 2016, the IASB published "Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)". The purpose of the interpretation is to provide guidelines on foreign currency transactions when non-monetary advance consideration paid or received is recognized before recognition of the relating asset, expense or income. This document clarifies how an entity has to determine the date of the transaction and, consequently, the spot exchange rate to be used for foreign currency transactions, whose consideration is paid or received in advance.
The interpretation clarifies that the transaction date is the earlier of:
  a) the date when the advance payment or advance receipt are recognized in the entity's financial statements; and
  b) the date when the asset, cost or revenue (or part of it) is recognized (with consequent reversal of the advance payment or the advance receipt).

  If there are numerous payments or amounts collected in advance, a transaction date must be identified for each one. IFRIC 22 applies as from 1st January 2018.
The Directors do not expect the Group's consolidated financial statements to be materially affected by the adoption of these amendments.

On 8th December 2016, the IASB published “Transfers of Investment Property (Amendments to IAS 40)” containing amendments to IAS 40. These amendments provide clarification on the transfer of properties to, or from, investment properties. Specifically, an entity should reclassify a property into, or from, investment property only when there is an evident change in use of the property. This change must be tied to a specific event that has occurred and, thus, should not be limited to a change in Management’s intentions for the use of the asset. These amendments apply as from 1st January 2018.
The Directors do not expect the Group’s consolidated financial statements to be materially affected by the adoption of these amendments.

On 7th June 2017, the IASB published IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments. The document addresses the issue of uncertainty over income tax treatments.
Under the document, an entity is required to reflect uncertainties in the determination of tax liabilities or assets in the financial statements only when the entity is likely to pay or recover the amount in question. Additionally, the document does not provide for any new disclosure requirements, stressing however that the entity should need to determine whether it will be necessary to provide disclosure on the Management’s considerations on uncertainty from the accounting of tax, in accordance with IAS 1.
The new interpretation applies as from 1st January 2019, but early adoption is allowed.
The Directors do not expect the Group’s consolidated financial statements to be materially affected by the adoption of these amendments.

On 12th October 2017, the IASB issued the document “Prepayment Features with Negative Compensation (Amendments to IFRS 9)”. The document specifies that a debt instrument with a prepayment option could comply with the contractual cash flow characteristics (“SPPI” test), and could, therefore, be measured using the amortized cost method, or at fair value through other comprehensive income even when the “reasonable additional compensation” provided for in the event of prepayment is a “negative compensation” for the lender. The amendment applies as from 1st January 2019, but early adoption is allowed.
The Directors do not expect the Group’s consolidated financial statements to be materially affected by the adoption of these amendments.

On 12th October 2017, the IASB issued the document “Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)”. The document clarifies the need to apply IFRS 9, including the requirements on impairment, to other long-term interests in an associate or joint venture to which the equity method is not applied. The amendment applies as from 1st January 2019, but early adoption is allowed.
The Directors do not expect the Group’s consolidated financial statements to be materially affected by the adoption of these amendments.

On 12th December 2017, the IASB published “Annual Improvements to IFRSs: 2015-2017 Cycle”, adopting the amendments to the standards in the context of the annual process for their improvement. The main amendments regard:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business that is a joint operation, it must remeasure previously held interests in that business. This process is not provided for when joint control is obtained.
- IAS 12 Income Taxes: the amendment clarifies that all the tax effects from dividends (including payments on financial instruments classified as equity) must be recognized consistently with the transaction that generated those profits (profit or loss, OCI or equity).
- IAS 23 Borrowing costs: the amendment clarifies that borrowings that remain outstanding even after the related qualifying asset is ready for use or sale should be calculated as part of the borrowing costs.

The amendments apply as from 1st January 2019, but early adoption is allowed.
The Directors are currently assessing the possible impacts from the adoption of these amendments to the Group’s consolidated financial statements.

- On 11th September 2014, the IASB published an amendment to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. The document was published to solve the current conflict between IAS 28 and IFRS 10.
  Under IAS 28, the gain or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or an associate in return for an investment in the latter is limited to the investment held in the joint venture or associate by other unrelated investors. By contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling interest in it, including in this case also the sale or contribution of a subsidiary to a joint venture or associate. The amendments require that for a sale/contribution of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller/contributor depends on whether the asset or subsidiary sold/contributed constitute a business under IFRS 3. If the assets or the subsidiary sold/contributed represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the investment still held by the entity shall be eliminated. To date, the IASB has suspended the application of this amendment.
  The Directors are currently assessing the possible impacts from the adoption of these amendments to the Group's consolidated financial statements.

4.7 Financial Statements

With regard to the format of the consolidated financial statements, the Group has opted to present the following types of statements.

Consolidated statement of financial position

The consolidated statement of financial position is presented with separate disclosures of Assets, Liabilities and Equity.

In turn, Assets and Liabilities are shown in the consolidated financial statements based on their classification as current and non-current.

An asset/liability is classified as current when it satisfies one of the following criteria:

- it is expected to be realized/settled or is expected to be sold or used in the normal operating cycle, or
- it is held principally to be traded or
- it is expected to be realized/settled within twelve months from the balance sheet date.

In the absence of all three conditions, assets/liabilities are classified as non-current.

Lastly, a liability is classified as current when the entity does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

Consolidated income statement

The consolidated income statement is presented in its classification by nature.

To provide a better understanding of the typical results of normal operations and of financial and tax management, the consolidated income statement shows the following consolidated interim results:

- operating profit;
- pre-tax profit;
- profit/(loss) from continuing operations;
- result for the period.

Consolidated comprehensive income statement

The consolidated comprehensive income statement includes all the changes in other comprehensive gains/(losses) for the year, generated by transactions other than those carried out with shareholders and on the basis of specific IAS/IFRS accounting standards. The Group has chosen to present these changes in a separate statement to the consolidated income statement.

Changes in other comprehensive gains/(losses) are shown net of the relevant tax effects. The statement also provides separate evidence of the items that can be, or not be, subsequently reclassified in the consolidated income statement.

Consolidated statement of changes in equity

The consolidated statement of changes in equity, as required by international accounting standards, shows separately profit or loss for the year and other changes not recorded in the consolidated income statement, but attributed directly to other consolidated comprehensive gains/(losses), based on specific IAS/IFRS accounting standards, as well as transactions with shareholders in their capacity as shareholders.

Consolidated statement of cash flows

The consolidated statement of cash flows is divided into cash flow generating areas as required by international accounting standards, prepared according to the indirect method.

Mention should finally be made that the Aedes Group has applied the provisions of Consob resolution no. 15519 of 27th July 2006, relevant to the financial statements and of Consob Communication no. 6064293 of 28th July 2006 relevant to company disclosure.

4.8 Consolidation principles

For the purposes of consolidation, the financial statements at 31st December 2017 of the companies included in this area have been used, prepared in accordance with Group accounting principles, which relate to IFRSs. The consolidation scope includes the subsidiaries, associates and investments in joint ventures. Subsidiaries are all those entities over which the Group has the power to directly or indirectly determine their relevant activities (i.e., financial and operating policies). A joint venture is an entity in which the strategic financial and operating decisions on its relevant activities are taken with the unanimous consent of the parties sharing control. An associate is an entity in which the Group has a significant influence, but does not control the relevant activities of the investee.

The consolidation principles can be summarized as follows:

- subsidiaries are consolidated using the full consolidation method, based on which assets and liabilities, costs and revenue of the financial statements of the subsidiaries in their overall amount are taken, regardless of the amount of the investment held; the book value of investments is eliminated against the underlying equity shares; balance sheet and income statement transactions between fully consolidated companies, including dividends distributed within the Group are eliminated; minorities are recorded in the specific equity item and, similarly, the share of profits or losses of minorities is shown separately in the income statement;
- all intragroup balances and transactions, including any unrealized profits arising from transactions carried out with Group companies, are eliminated in full. Unrealized losses are eliminated except where they represent an impairment loss to be recorded in the income statement;
- investments in associates and joint ventures are measured at equity. The book value of investments is adjusted to reflect the investor's share in the results of the investee achieved after acquisition date;
- gains arising from transactions between companies included in the consolidation scope and measured at equity, not realized through transactions with third parties, are eliminated based on the percentage of the investment held.

The financial statements of the subsidiaries are drawn up using the currency of the primary economic environment in which they operate ("functional currency"). The consolidated financial statements are presented in Euro, the functional currency of the Parent and for the presentation of the consolidated financial statements of the Aedes Group. It should be noted that, in the scope of consolidation, there are no companies that prepare their financial statements in currencies other than the Euro.

Business combinations are accounted for using the acquisition method under IFRS 3. At acquisition date, transaction assets and liabilities are recorded at fair value at that date, except for deferred tax assets and liabilities, assets and liabilities relating to employee benefits arrangements, stock option plans if any, as well as assets classified as held for sale, which are measured according to the relevant standard.

Acquisition-related costs are recognized in the income statement as incurred.

Goodwill represents the excess of the sum of the acquisition price, of equity attributable to minorities and the fair value of any investment previously held in the acquiree over the fair value of net assets and liabilities acquired at acquisition date.

If the net assets and liabilities acquired at acquisition date exceed the aggregate of the acquisition price, of equity attributable to minorities and the fair value of any investment previously held in the acquiree, the excess is recognized in the income statement of the year in which the transaction was concluded.

The share of equity attributable to minorities at acquisition date can be measured at fair value or at the pro-rata value of net assets recognized for the acquiree. The measurement method is selected on a transaction-by-transaction basis.

For the purpose of calculating goodwill, any acquisition payments subject to conditions, provided by the business combination, are measured at fair value at acquisition date and included in the value of the purchase consideration. Any subsequent changes to the fair value, which qualify as adjustments arising from additional information on existing facts and circumstances at the date of the business combination and, in any case, materializing within one year, are included in goodwill retrospectively.

For business combinations achieved in stages, the investment previously held in the acquiree is re-measured at fair value at the date of acquisition of control, and any resulting profit or loss is recognized in the income statement in the year the operation has been completed.
If the values of assets and liabilities acquired are incomplete at the date of preparation of the financial statements, the Group recognizes provisional amounts that will be subject to adjustment during the measurement period within twelve months, to take account of new information obtained on facts and circumstances existing at acquisition date, which, if known, would have affected the value of assets and liabilities recognized at that date.

With particular regard to the above, the Group, in the preparation of this report, has taken account of the recent legal guidelines, expressed in particular in the Exposure Draft issued in June 2016 by the IASB (ED/2016/1), already adopted starting from the preparation of the condensed half-year report at 30th June 2016.
Taking account of the Exposure Draft, the Group has developed an internal policy aimed at identifying the criteria and evaluations to distinguish a business combination from purchases of assets. Where, in the context of an acquisition, the fair value acquired is basically focused on an asset or homogeneous category of assets, the acquisition transaction is classified as a purchase of assets and related liabilities. Where the fair value cannot be focused on a specific category of assets, the presence of resources and structured processes is assessed as part of the net assets acquired which are able, in their combination and interaction, to generate specific results. Only in such circumstances is the acquisition transaction classified and accounted for as a business combination.

If a group of assets is acquired as part of a transaction classified as a purchase of assets, the consideration paid is allocated on the individual assets in proportion to their fair value.

4.9 Valuation Criteria

NON-CURRENT ASSETS AND LIABILITIES

Intangible fixed assets

An intangible fixed asset is recognized only if identifiable, verifiable and if it is expected to generate future economic benefits and if its cost can be reliably measured.
Intangible fixed assets are recorded at purchase cost, net of accrued amortization and impairment.
Amortization is recognized starting from when the asset is available for use or is capable of operating in the manner expected by Management, and is terminated at the date in which the asset is classified as owned for sale or is written off for accounting purposes.
Concessions, licences and trademarks are booked at their historic cost, net of accrued amortization and impairment. Amortization is recognized based on the lesser period between the contractual duration and the period within which the asset is expected to be used.
Software licences purchased are booked based on the costs incurred for the purchase and installation of the specific software, net of accrued amortization and impairment. These costs are amortized based on their useful life.
Costs associated with the development or maintenance of computer programmes are recorded as costs at the time they are incurred. Costs for the development of computer software booked as assets are amortized over their estimated useful life.

Investment property

Investment property consists in property assets held to earn rental revenue or an appreciation of the invested capital, or as areas for development and building of properties in order to earn rentals.
Investment property can, therefore, be broken down as follows:

- **properties for investment**: initially recognized at cost, including transaction costs. After initial recognition, this investment property is recorded at fair value, reflecting market conditions at the balance sheet date. Gains and losses deriving from the change in the fair value of investment property are recorded in the income statement for the year in which they occur;
- **properties under development**: accounted for using the cost criterion until the fair value can be reliably determined on a continuous basis and, after that time, recorded at fair value with an equal treatment of properties for investment. It should be noted that, as indicated in Consob Recommendation no. DIE/0061944 of 18th July 2013, based on the procedure approved on 28th September 2016 by the Board of Directors, the Group has identified the approval of the town-planning agreement by the competent Body as the moment when the property projects in progress are measurable at fair value in a reliable and continuous manner.

Investment property is initially recognized at cost, including transaction costs, and subsequently measured at fair value, recognizing in the income statement under “fair value adjustments” effects from changes in fair value of the investment property.
Investment property is eliminated from the financial statements when it is sold or permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising from the withdrawal or disposal of an investment property are recognized in the income statement in the year of the withdrawal or disposal. Reclassifications from/to investment property usually occur when there is a change of use. For investment property reclassifications to direct use (instrumental property), the reference value of the property for subsequent accounting is the fair value at the date of change in use. The property portfolio, including the portfolio held through associates and joint ventures, is assessed every six months with the help of independent valuers with recognized and relevant professional qualification and recent experience in the location and features of the properties assessed.

Fair value represents the amount for which an asset could be exchanged or that would need to be paid to transfer the liability (exit price) in a free transaction between knowledgeable, independent parties. Consequently it is assumed that the company is a going concern and that neither party has the need to liquidate their assets in a forced sale on unfavourable conditions.
For the measurement of the individual properties, the type of tenant currently occupying the property, the division of insurance responsibilities and maintenance between the lessor and lessee and residual economic life of the property are taken into consideration.

Other tangible fixed assets

Other tangible fixed assets are booked at purchase or production cost, including directly attributable ancillary costs, net of depreciations and impairments accrued.
Depreciation is calculated starting from when the property is available for use or is potentially able to provide the associated economic benefits.
Depreciation is calculated on a straight-line basis at rates that reflect the useful life or, in the case of disposal, until the end of use.
Subsequent costs are included in the book value of the asset and are recorded as a separate asset, depending on the more appropriate method, only when it is probable that the future economic benefits associated to the item will benefit the Group and the cost of the item can be reliably measured. All other costs for repairs and maintenance are recorded in the income statement during the year in which they are incurred.

The rates of depreciation, unchanged versus the prior year, are the following:

- Plant and equipment 20%
- Equipment 20% or, if lower, duration of the rental contract
- Other assets – Vehicles 25%
- Office equipment 20%-50%
- Furniture and fittings 12%

Financial charges relating to the purchase are charged to the income statement unless they are directly attributable to the purchase, construction or production of an asset that justifies the capitalization, in which case they are capitalized.
The capitalization of financial charges terminates when all of the necessary activities to render the asset available for use are completed.
Leasehold improvements are classified under tangible fixed assets, on the basis of the cost incurred. The depreciation period corresponds to the lower of the remaining useful life of the tangible fixed asset and the residual duration of the lease contract.

Leases

The definition of a contractual agreement as a lease transaction (or containing a lease transaction) is based on the substance of the agreement and requires an assessment whether the fulfilment of the agreement itself depends on the use of one or more specific assets or if the agreement transfers the right of use to such as set. The verification that an agreement contains a lease is performed at the beginning of the agreement.
A lease contract is classified as finance or operating lease at the beginning of the lease. A lease contract that basically transfers to the Group all of the risks and benefits arising from ownership of the leased asset is classified as finance lease.
Finance leases are capitalized at the start date of the lease at the fair value of the asset leased or, if lower, at the current value of the instalments. The instalments are allocated between principal and interest in order to apply a constant interest rate on the remaining balance of the debt. Financial charges are recognized in the income statement.
Operating lease payments are recognized as costs in the income statement on a straight-line basis over the duration of the contract.

Impairment of assets

At each reporting date, the Company reviews the book value of its property, plant, equipment, intangible assets and investments to determine whether there are any signs of impairment. If so, the recoverable amount of the assets is estimated to determine any impairment loss.

The verification consists in the estimate of the recoverable value of the asset comparing it with the relevant net book value.
If the recoverable amount of an asset is less than the net book value, the latter is reduced to its recoverable amount. This reduction constitutes an impairment loss, which is recognized in the income statement in the period in which it occurs.
The recoverable amount of an asset is the higher of net selling price and value in use. The value in use is the current value of expected cash flows generated by the asset. In order to assess impairment, assets are analyzed starting from the lowest level for which the separate cash generating units can be identified.
Intangible and tangible fixed assets not subject to amortization/depreciation (indefinite useful life), as well as intangible fixed assets not yet available for use, are subject to an annual impairment test.
In the presence of an impairment reversal indicator, the recoverable value of the asset is recalculated and the book value is increased up to this new amount. The increase in the book value cannot, in any case, exceed the net book value that the fixed asset would have had should the impairment loss not have occurred.
Impairment losses of goodwill cannot be reversed.
With regard to property assets, assessments are performed for each individual property based on appraisals prepared by independent third parties. In this context, in consideration of the asset subject to assessment, the methods used are the following:

- conversion Method: based on discounting at the appraisal date of the cash flows generated in the period in which the property transaction is executed; cash flows are the result of the difference between costs and revenue;
- direct Comparison Method: based on the comparison between the asset at hand and other similar assets subject to sale or currently offered on the same market or trade markets;
- income Method: based on the present value of the potential future earnings of a property obtained by capitalizing income at a market rate.

For investments, given their nature (mainly property), the impairment assessments are developed on the basis of book equity appropriately adjusted in order to consider the fair value for the property units owned by each investee, taken from the above property appraisals, net of tax effects where applicable.

With regard to non-property investments, assessments are developed based on the values recoverable through use, determined based on the predictable developments in the activity prepared by Management.

Investments in joint ventures
These are companies over whose activities the Group has joint control as set out by IFRS 11. The consolidated financial statements include the Group's share in the results of joint ventures, accounted for using the equity method from the date that joint control starts until it ceases to exist.

Investments in associates
These are companies in which the Group exercises significant influence, but not control or joint control, over financial and operating policies. The consolidated financial statements include the Group's share in the results of the associates, accounted for using the equity method, starting from the date in which the significant influence started up to the moment in which it ceases to exist.

Investments in other companies
Under IAS 32 and IAS 39, investments in companies other than subsidiaries, associates and joint ventures are classified as available-for-sale financial assets and are measured at fair value, except for cases where the fair value cannot be determined; in this latter case, the cost method is used, adjusted for impairment losses.
Gains and losses arising from changes in fair value are recognized in the comprehensive income statement.
In the presence of an impairment loss or in the event of sale, gains and losses in value from the original cost, recognized up to such time directly within equity, are accounted for in the income statement.

Financial assets

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used for hedging purposes in order to reduce the interest risk rate variability.
All derivative financial instruments are measured at fair value, pursuant to IAS 39.
When the financial instruments have the characteristics to be booked in hedge accounting, the following accounting treatments apply:

- Fair value hedge – If a derivative instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability booked in the financial statements attributable to a particular risk that can impact on the income statement, the profit or loss deriving from the subsequent changes in the fair value of the hedging instrument are recognized in the income statement. The profit or loss of the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and are recognized in the income statement.
- Cash flow hedge – If a derivative financial instrument is designated to hedge the exposure to the variability of the future cash flows of an asset or liability booked in the financial statements or a highly probable transaction that could impact on the income statement, the effective portion of the profit or loss on the derivative financial instrument is recognized in equity. The cumulative profit or loss is removed from equity and recorded in the income statement in the same period in which the relevant operating effect of the transaction subject of the hedge is recognized. The profit or loss associated with a hedge (or part of a hedge) which has become ineffective is immediately booked in the income statement.

LOANS AND RECEIVABLES

These are non-derivative financial assets with fixed or determinable payments that are not listed on an active market and for which the Group does not intend to perform trading operations.
They are included in current assets except for the portion falling due beyond 12 months from the date of the financial statements, which is classified as a non-current asset.
Loans are initially recognized at cost as represented by the fair value of the amount received, net of the accessory costs of transacting the loan.
After this initial recognition, loans are recognized using the amortized cost accounting approach by applying the effective interest rate.
The amortized cost is calculated taking account of the issue costs and any discount or premium expected on settlement.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Under IAS 39, investments in companies other than subsidiaries and associates, consisting in non-current financial assets not held for trading, are classified as available-for-sale financial assets and are measured at fair value, except for cases where the fair value cannot be reliably determined; in this case, the cost method is used. Profit and loss resulting from value adjustments are recorded in a specific reserve of other comprehensive income/(loss) until they are either sold or become impaired. The moment the asset is sold, the comprehensive profit or loss previously recognized in other actuarial income/(loss) is charged to the income statement in the period.

Non-current assets held for sale

A non-current asset is classified separately as a non-current asset held for sale, if its book value will be recovered principally through a sale transaction rather than through continuing use. For sale to be highly probable, an entity should start the activities leading up to the sale and complete the sale within a year of the classification date. The Company measures a non-current asset classified as held for sale at the lower of its book value and fair value less costs to sell.
Under IFRS 5, the figures relevant to assets held for sale are shown in two specific items of the balance sheet: "non-current assets held for sale" and "liabilities relevant to non-current assets held for sale".
From the date on which such assets are classified as fixed assets held for sale, their depreciation is suspended.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated based on temporary differences between the carrying amount of assets and liabilities and their tax basis (full liability method).
Deferred tax assets and liabilities are calculated based on the tax rates expected to be applicable at the time such deferments are realized, considering the rates in force or those expected to be issued.
They cannot be discounted back and are classified among non-current assets/liabilities.
Prepaid and deferred taxes are credited or charged to equity if they relate to items that are credited or charged directly to equity in the year or in prior years.
Prepaid taxes are booked only when recovery is probable in future years. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced in the measure that it is no longer probable that sufficient taxable income exists in order to allow the total or partial review of such assets.

Equity

Treasury shares are classified as a reduction in equity.
The original cost of treasury shares and gains/losses from subsequent sale are recognized as changes in equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity.
Should any Group company acquire capital shares within the Company equity (treasury shares), the amount paid, including incremental costs attributable (net of revenue taxes), is subtracted from equity attributable to the holders of the Company capital until the shares are not cancelled, reissued or disposed. Should such shares be subsequently sold or reissued, whatever price is received, net of all additional costs of directly attributable transactions and relevant effects of revenue taxes, is included in the equity attributable to the holders of capital of the Company.

Provisions for risks and charges

Provisions for risks and charges relate to costs and charges of a definite nature and whose existence is certain or probable and that, at the reporting date, are indeterminable for amount or date of occurrence. Allocations are recognized when: (i) it is probable that a present, legal or implicit obligation exists arising from past events; (ii) it is probable that the fulfilment of the obligation involves a cost; (iii) the amount of the obligation can be reliably estimated. Allocations are booked at the amount representing the best estimate of the amount that the company would rationally pay to extinguish the obligation or to transfer it to third parties at the reporting date. When the financial effect of timing is significant and the dates of payment can be reasonably estimated, the allocation is subject to discounting; the increase in the provision to reflect the passing of time is recognized in the income statement under “Financial incomes/(charges)”.
When the liability is relevant to tangible assets (i.e. land reclamation), the provision is recorded in offset to the asset to which it relates; the charging of the amount to the income statement takes place as amortization.
Provisions are periodically updated to reflect changes in cost estimates, timing of implementation and the discounting rates; changes in estimates of the provisions are charged to the same item of the income statement that previously reported the allocation or, when the liability is relevant to tangible assets (i.e. land reclamation), in offset to the asset to which it relates.
Potential liabilities are shown in the explanatory notes, represented by: (i) possible obligations (but not probable), deriving from past events, whose existence will be confirmed only on the occurrence, or less, of one or more future events not totally under the control of the company; (ii) present obligations arising from past events whose amount cannot be reasonably estimated or whose settlement is not likely to involve a cost; (iii) obligations of the types described in paragraphs (i) and (ii) relating to associates or joint ventures, both in the case where the potential liability is proportionate to the interest held and in the event that the Company is fully liable for contingent liabilities of the associate or joint ventures.

Employee benefits

Post-employment benefits (severance indemnity) and other long-term benefits are subject to actuarial evaluations.
Using this method, the liability booked in the financial statements represents the current value of the obligation, net of any other plan asset, adjusted for any actuarial losses or profits not booked.

Accordingly, for Group companies with less than 50 employees, the measurement of the liability continues to be performed by using the actuarial method called “projected unit credit method”.
Following the amendment to IAS 19 “Employee Benefits”, effective as from 1st January 2013, the Group recognizes the actuarial profits and losses immediately in the Statement of other comprehensive profits/(losses) so that the entire net amount of the provisions for defined benefits (net of plan assets) is recorded in the consolidated statement of financial position. The amendment also provides that changes between one financial year to the next in the provision for defined benefit plans and plan assets must be broken down into three components: cost components relevant to the service period of the financial year must be recognized in the financial statements as “service costs”; the net financial charges, calculated applying the appropriate discount rate to the net balance of the provision for defined benefits net of the assets resulting at the beginning of the financial year, must be recognized in the income statement as such; the actuarial profits and losses that result from the remeasurement of the liabilities and assets must be recognized in the statement of other comprehensive profits/(losses).

Financial payables
Financial payables are initially recognized at fair value net of the transaction costs and subsequently measured at amortized cost using the effective interest rate method. The amortized cost is calculated taking account of the issue costs and any discount or premium expected on settlement.

Loans are classified as current liabilities unless the Group does not have the unconditional right to defer the payment of the liability for at least 12 months after the reporting date.

Trade and other payables
Payables are initially recognized at fair value of the consideration to be paid and subsequently at amortized cost, which generally corresponds to the nominal value.

CURRENT ASSETS AND LIABILITIES

Inventory
Inventory consists mainly in land - also to be built on -, properties under construction and renovation, completed properties, intended for sale to third parties and not to be kept in the owned portfolio in order to earn rental revenue.
Land to be built on is measured at the lower of the cost of acquisition and the corresponding presumed realization value, net of the relating estimated cost to sell. The cost is increased by incremental expenses and financial charges eligible for capitalization where the following conditions are met:

- management has taken a decision to use, develop or directly sell the areas;
- costs are being incurred to obtain the asset;
- financial charges are being incurred.

Properties under construction and/or being renovated are measured at the lower of cost, including incremental expenses of their value and capitalizable financial charges, and the corresponding estimated realizable value.
Properties to be sold are measured at the lower of cost and market value based on similar property transactions by area and type. The purchase cost is increased by any incremental costs incurred at the time of sale.

Receivables booked in current assets, trade and other receivables
Receivables are initially recognized at fair value of the consideration to receive, which for this type generally coincides with the nominal value indicated in the invoice, adjusted (where necessary) to the estimated realizable value by provisions for the adjustment of the nominal values. Subsequently, receivables are measured using the amortized cost method, which generally coincides with the nominal value.
Payables are initially recognized at fair value of the consideration to pay and generally their amount is easily identified with a high degree of certainty. Subsequently, payables are measured using the amortized cost method, which generally coincides with the nominal value.

Cash and cash equivalents
Cash and cash equivalents include: cash on hand, demand deposits with banks and other short-term highly liquid investments. Bank overdrafts are recognized as loans under current liabilities in the consolidated statement of financial position.

INCOME STATEMENT

Sale of assets

Revenue from the sale of assets is recognized only when all of the following conditions are met:

1. most of the risks and benefits relevant to the ownership of the assets have been transferred to the purchaser;
2. the effective control over the assets sold and the normal continuing level of activities associated to the ownership are terminated;
3. the value of revenue can be reliably calculated;
4. it is probable that the economic benefits stemming from the sale will be used by the company;
5. costs incurred or to incur can be reliably calculated.

In the case of property, these conditions are deemed normally fulfilled by the notarial deed.

Provision of services

Revenue from a transaction for the supply of services must be recognized only when it can be reliably estimated, by reference to the stage of completion of the transaction at the reporting date. The result of a transaction can be reliably estimated when all of the following conditions are met:

1. the amount of revenue can be reliably measured;
2. it is probable that the company makes use of the economic benefits of the transaction;
3. the stage of completion of the transaction at the reporting date can be measured reliably and the costs incurred for the transaction and the costs to incur for its completion can be reliably calculated.

With particular regard to lease contracts, should they provide financial incentives in favour of tenants for initial lease periods, these incentives are recognized on a straight-line basis over the contractual term as required by IAS 17.

Interests

Financial income is recognized in the income statement on an accruals basis, based on the interest accrued using the effective interest rate method.

Financial charges incurred for investments in assets that normally require a specific amount of time in order for the asset to be ready for use or sale (qualifying asset pursuant to IAS 23 - Financial charges) are capitalized and amortized over the useful life of the asset class to which they relate.
All of the financial charges are recognized in the income statement during the year in which they were incurred.

Dividends

Dividends are recognized at the time when shareholders have the right to receive payment, which generally corresponds to the date of the Shareholders' Meeting called to resolve on dividend payout.

Current taxes

Current taxes are calculated on the basis of a realistic estimate of the taxes payable pursuant to the tax laws in force. The estimated liability is recognized under "Tax payables". Tax assets and liabilities for current taxes are recorded at the amount expected to be paid/recovered to/from the tax authorities applying the rates and tax law in force or substantively approved at the balance sheet date.

As Parent Company, under art. 2359 of the Italian Civil Code, Aedes SIIQ S.p.A. has joined through joint exercise of the option with various subsidiaries, the Group taxation scheme pursuant to art. 117 and ensuing articles of Presidential Decree 917/86 (so-called national tax consolidation).
As is generally known, the national Tax Consolidation Scheme allows the calculation by Aedes SIIQ S.p.A. (consolidating company) of a single taxable base, resulting from the algebraic sum of the taxable amount or tax loss of each participating company. Joining the group taxation scheme is optional and, once exercised, is irrevocable, binding the participating companies for three years. Subsidiaries of Aedes SIIQ S.p.A. which, for the 2017 tax year, opted for group taxation pursuant to art. 117 and ensuing articles of Presidential Decree 917/86, are: Aedes Project S.r.l. in liquidation, Novipraga SIINQ S.p.A., Pragaquattro Center SIINQ S.p.A., Praga Res S.r.l. former Praga Construction S.r.l., Pragasei S.r.l., Pragasette S.r.l. in liquidation, Pragaotto S.r.l., Pragaundici SIINQ S.p.A., S.A.T.A.C. SIINQ S.p.A., and Società Agricola La Bollina S.r.l., in addition to Cascina Praga SIINQ S.p.A. and Redwood S.r.l. (merged into Aedes SIIQ S.p.A. during the year) and Praga Service R.E. S.r.l. (merged into Praga Res S.r.l. during the year).

The operating effects arising from the national tax consolidation scheme are governed by appropriate regulations signed by the consolidating company and the consolidated companies; under these regulations:

1. subsidiaries, for financial years with positive taxable income, transfer to Aedes SIIQ S.p.A. the amount equal to the tax payable in respect of the above tax (subsidiaries with taxable income reduce their tax liability with their losses from prior years);
2. subsidiaries with negative taxable income are split up into those with profitability prospects that allow, with reasonable certainty, in the absence of national tax consolidation, the recognition of deferred tax assets associated with the negative taxable income on the financial statements, and those without such profitability prospects:
    - subsidiaries with negative taxable income in the first category receive from Aedes SIIQ S.p.A. compensation corresponding to the lower of the tax savings realized by Aedes SIIQ S.p.A. and the deferred tax assets associated with the negative taxable income on the financial statements; compensation, therefore, will be paid and will be due if and when the tax savings will be effectively realized by Aedes SIIQ S.p.A.;
    - subsidiaries with a negative taxable income in the second category are not entitled to any compensation.

Earnings per share

Basic earnings per share are calculated by dividing the total profit/loss for the period attributable to ordinary shareholders of Aedes SIIQ S.p.A. by the weighted average number of ordinary shares outstanding in the period, excluding treasury shares.
Diluted earnings per share are determined by adjusting the weighted average number of shares in circulation, to take account of all the potential ordinary shares, having a dilutive effect.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements and the related notes, in accordance with IFRS, requires the Directors to apply accounting standards and methods that, in certain circumstances, are based on difficult and subjective valuations and estimates based on historical experience and assumptions that are from time to time considered reasonable and realistic under the relating circumstances, which affect the recognized amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates and assumptions are reviewed on a regular basis and the effects of any changes are reflected immediately in the income statement. It should be noted that the assumptions made on future performance are based on significant uncertainty. Therefore, future results may differ from estimates, and these could require even significant adjustments which cannot be predicted or estimated at this time.
Estimates and assumptions are used mainly in the assessment of the recoverable value of investments, the valuation of investment property and inventory, the recoverability of receivables, the fair value measurement of derivatives and the measurement of provisions for risks and charges.

With particular regard to the valuation of investment property (Euro 430.1 million at 31st December 2017) and real estate inventory (Euro 49.5 million at 31st December 2017), it should be noted that the assessment of fair value and the net realizable value, performed with the support of independent valuers, derives from variables and assumptions on the future performance, which may vary significantly and thus produce changes - in the book value of properties - which cannot be predicted or estimated at this time.

The main variables and assumptions marked by uncertainty are:

- net cash flows expected from properties and related implementation timelines;
- inflation rates, discount rates and capitalization rates.

Similar considerations apply to the measurement of investments in associates and joint ventures (Euro 40.3 million at 31st December 2017), whose equity reflects the fair value measurement of investment property held.

See Note 33 - IFRS 13 for further information on the methods of determining the fair value of properties and the section “Independent valuer appraisals” in the Directors’ Report on operations for information on the selection process of independent valuers.

4.10 Main types of risk

The following are the main sources of risk and eligible hedging strategies.

STRATEGIC RISKS

- **Market risk**

  Market risk is the possibility that changes in the general performance of the economy, in the property market and in exchange rates may adversely affect the value of assets, including property assets, liabilities or expected cash flows.

  The Group monitors the general performance of the economy through appropriate research and analyzes the performance of the property market every six months. The Group has a suitable strategy for diversifying its property portfolio, taking into account both geographical area and asset type. Additionally, the Group's strategy is mainly focused on high-quality assets located in major urban centres or leading business areas that have demonstrated high rental potential even during negative market cycles, due to demand being less volatile than for smaller assets in secondary cities.

  To reduce vacancy risk, the Group markets to premium tenants, with long-term leases including appropriate safeguards. The risk of failing to re-lease vacant spaces is mitigated by the high quality of the Group's property assets.

OPERATING RISKS

- **Credit risk**

  Credit risk lies mainly in a client's inability to pay, regarding specifically tenants of owned assets. The Group is not affected by significant credit risk concentration, given the adequate diversification in terms of tenants. The activity carried out to reduce credit risk exposure is based on an analysis of the composition of the client portfolio for each business area, to ensure adequate guarantee on the financial health of clients. Where deemed necessary, suitable guarantees are required for property transactions.

  The maximum theoretical exposure to credit risk for the Group is represented by the book value of financial assets, in addition to the face value of guarantees given to third-party debts or commitments as set out in Note 31.

  Most of the financial assets are from associates. The financial assets consist mainly of receivables, whose collection is tied to the development/disposal cycle of the property assets of the associates. Any write-downs of financial assets are made on an individual basis, and the write-downs are deemed to reflect the actual collection risk.

- **Lease risk**

  Lease risk lies in the possibility that owned properties remain vacant for extended periods of time, exposing the Group to a reduction in cash flows from rents and an increase in property costs.

  The Group has adopted a policy based on ongoing relations with tenants, with a view to their retention. The current property market situation, with specific regard to offices, does not rule out the possibility that certain tenants, on expiry of the contract or during the window of exercise of the so-called break option, may exercise the right to terminate the lease contract or demand renegotiation of the lease rent.

  The Group monitors this risk by maintaining ongoing relations also with leading specialized real-estate agencies.

Risks arising from the use of the services of construction companies

In implementing its initiatives, the Group makes use of the services of construction companies, the dealings of which are governed by specific procurement contracts under the law. While the Group uses the services of leading construction companies, and the procurement contracts, in the event of disputes with the end user, provide for the possibility of claiming compensation from the contractor, one cannot rule out the possibility that the construction companies fail to meet their obligations in a timely manner, producing potential adverse effects on the operating and financial activities of the Group.

Occupational health and safety risk and environmental risk

The Aedes Group has taken all the necessary steps to safeguard health in the workplace, as required by law. For the purposes of the regulations, in 2017 no such accidents occurred as to involve serious or extremely serious injuries in the workplace, or deaths.
The risks related to the occurrence of events that may cause effects on the environment or on the health of the population in the areas of operation of the Group are under the spotlight of public regulators and are the object of increasingly stringent legislation. In the year under review, the Aedes Group caused no damage to the environment for which it was found guilty, nor was it imposed fines or penalties for environmental offences or damage.
The Company is strongly committed to preventing such risks and has adopted management systems capable of preventing and documenting the management approach to these issues.
Additionally, the Company pays special attention to the aspects governing administrative, safety and environmental liability related to the risk of the perpetration of offences as set out in Legislative Decree 231/01. For further information, reference should be made to the two sections in the Sustainability Report: "3.1 Aedes Group approach to sustainability" and "3.4 Responsibility towards people".

COMPLIANCE RISKS

Liability pursuant to Legislative Decree 231/01

The risk pursuant to Legislative Decree 231/01 is that the Company may incur penalties related to the regulations governing the liability of legal entities in the perpetration of offences pursuant to Legislative Decree 231/01.
In order to reduce such risk, the Company has adopted the "Organizational Model" or "Model 231", divided into a General Section, which presents targets, structural guidelines and implementation procedures of the Organizational Model, and a Special Section that provides an overview of the offences pursuant to Legislative Decree 231/01 considered relevant as a result of risk assessment, establishes rules of conduct for Model 231 recipients, and sets standards for the preparation of the procedures in the business areas involved.
The Company has also drawn up a Code of Ethics that applies to the entire Group staff, who are committed to comply with and enforce the principles of the Code as part of their duties and responsibilities.
The Company has additionally appointed a Supervisory Body with autonomous powers of initiative and control, tasked with overseeing the effectiveness, adequacy, operation and compliance with the Organizational Model, also seeing to its constant updating.
For further information, reference should be made to the two sections in the Sustainability Report: "3.1 Aedes Group approach to sustainability", as well as to the report on corporate governance and ownership structure for 2017 prepared pursuant to art. 123-bis of the TUF.

Regulations for Listed Companies

The Company has the status of an issuer of securities listed on a regulated market and is, therefore, subject to specific regulations imposed by operational and oversight bodies.
The Company pays the utmost attention to compliance with legal and regulatory requirements arising from the listed company status. Specifically, Legal Counsel and Investor Relations watch over the obligations

towards supervisory and market management authorities, handling the market disclosure process. This process, which requires close coordination with the internal departments for the identification, verification and communication of administration, accounting and management data and information, is carried out in compliance with specifically defined internal regulations and under the supervision of the Chairman, Chief Executive Officer and the Financial Reporting Manager.

Liability pursuant to Law 262/05

The risk under Law 262/05 refers to the liability of the Financial Reporting Manager, pursuant to Law 262/05.

In compliance with the regulatory provisions of Law no. 262 of 28th December 2005, "Investment Law", the Company has adopted an internal administrative-accounting control system over financial reporting, with the purpose of (i) ascertaining that the Internal Control System currently in place is able to provide reasonable certainty on the true and fair view of income statement, balance sheet and cash flow information submitted; (ii) implementing adequate administrative-accounting procedures for the preparation of the financial statements and consolidated financial statements, as well as any other disclosure of a financial nature; (iii) guaranteeing the effective application of the administrative and accounting procedures prepared over the period to which the above documents refer.

Tax Risk - SIIQ/REIT Regime requirements

The risk arising from the SIIQ/REIT Regime is that the Company may fail to comply with the asset and profit requirements to remain in such tax regime, with the consequent loss (in the event that such circumstance extends under the time limits of the law) of the status of SIIQ/REIT. The Company intends to closely monitor the associated tax risks; the assessments made on the tax model adopted are prepared with the assistance of select specialists. Separate accounting is used for taxable and tax-exempt operations. The structure is designed to carry out regular asset and profit tests in order to monitor compliance with legal requirements, including in the long term.

In light of the financial position and results of operations of the Parent Company at 31st December 2017, the second reference year for verifying the parameters set by the Special Regime of SIIQs/REITs, the asset and profit requirements have both been met. Regarding the asset test, in fact, the value of properties and areas owned and to be leased represents over 80% of the total asset value; regarding the profit test, the amount of revenue generated by the lease of property held through ownership or other property rights, and of gains on the sale of property intended for leasing represents over 80% of the positive components of the income statement.

FINANCIAL RISKS

Interest rate risk

The Group's exposure to interest rate risk originates mainly in medium and long-term financial payables. Floating-rate payables expose the Group to a cash flow risk, while fixed-rate payables expose the Group to a fair value risk.

The Aedes Group's exposure to risk originates mainly in payables indexed to a floating market rate, with a resulting risk of cash flow fluctuations, since the changes in fair value are not booked in the income statement and do not present cash flows that are subject to market conditions.

Interest rate risks can be reduced by concluding derivative contracts. The instruments generally used are "plain vanilla" or "step-up" interest rate swaps, which convert the floating rate into a fixed rate, and/or caps, which set a cap on the interest rates payable by the Company, and/or collars, namely instruments represented by the purchase of a cap and sale of a floor, which set a floor and a cap on interest rates payable by the Company, allowing it to maintain a floating rate within the set range.

A derivative instrument is chosen by analyzing the individual investment projects and relevant loans, i.e. assessing the market conditions and the medium-long term strategy.

In order to reduce the Group's overall exposure to interest rate risk, the Company concluded a derivative contract on 4th November 2015 with the following characteristics:

Type	zero cost Collar
Effective date	31st December 2015
Maturity	31st December 2020
Notional value	Euro 50 million, Bullet
Floating-Rate	Euribor 3 months, act/360, quarterly
Cap strike	1.00%
Floor strike	0.00%

The notional amount underwritten amounts to approximately 20.9% of the Group's gross financial debt at 31st December 2017. It should be noted that the instrument is not tied to a specific loan, but has the purpose of reducing the risk of an increase in interest rates on the Group's overall exposure. Accordingly, any changes in the period will be recorded in the income statement as period adjustments to fair value.

A Euro 30 million bond with a fixed interest rate of 5% was also issued in late December. Overall, therefore, the portion of debt exposed to interest rate risk is 66.8%, down by more than two percentage points versus 2016.

Exchange rate risk

At 31st December 2017, the Group is not subject to exchange rate risk, since it has no exposure to currencies other than the Euro.

Liquidity risk

Liquidity risk is the risk that the Company and the Group fail to meet their payment obligations, due to the difficulty in raising funds (funding liquidity risk) or in liquidating assets on the market (asset liquidity risk). This may cause adverse effects on the financial performance in the event that the Company or the Group are forced to incur additional costs to meet their commitments or, in a worst case scenario, a condition of insolvency endangering business continuity.
The Company, through its Finance Department and ongoing supervision by the Parent Company's executive bodies, keeps a watchful eye on cash and short-term financial commitments. For this purpose, the Group monitors the liquidity risk by preparing a detailed periodical financial budget, considering a time horizon of at least one year and the effective management of property sales and assumption of financial commitments.

In identifying the criteria to be used for the preparation of these financial statements, the Company/Group has taken account of cash flows from operations and financial commitments affecting all Group companies for a period of 12 months from the date of the forthcoming approval of the financial statements for the year under review, including the planned investing activities and forthcoming maturity of specific loan agreements currently in place.
Based on the requirements arising from the financial budget, the Company has identified the main funding sources, deriving mainly from:

- refinancing of certain assets;
- disposal of certain assets;
- rescheduling of short-term credit facilities.

Based on the information and the documentary evidence available at the date of preparing the financial statements at 31st December 2017, and on the progress of the initiatives currently in place with regard to the above funding sources, there are no significant risks of a possibility of not completing the actions according to the schedule and procedures set out in the financial budget. The Group's liquidity situation at the end of the twelve-month period is expected to be positive, despite acquisitions and investments in existing properties, to be financed using credit, via the market and/or by disposing of existing assets during the year. Accordingly, the Directors believe there are no uncertainties on the Company and Group's ability to meet their current and prospective financial obligations in the foreseeable future.

4.11 Subsequent events

On 28th February 2018, in line with a framework agreement concluded in December 2017, Aedes SIIQ signed the lease contract for the entire Tower located in Viale Richard 3, Milan, with WPP Marketing Communications (Italy) S.r.l., a company of the WPP Group – a leading international communications corporation whose parent WPP PLC is listed on the NYSE. The lease will have a 9-year term, renewable for a further 6 years, with an annual rent of Euro 1.8 million.

4.12 Consolidation scope

The consolidated financial statements at 31st December 2017 include the balance sheet and income statement figures of the Parent Company Aedes and the direct and indirect subsidiaries.
The companies in which the Parent Company, directly or indirectly, has significant influence, and joint ventures are consolidated at equity.

The list of subsidiaries and companies consolidated at equity are shown in Annex 1.

Significant changes in the consolidation scope took place during the year and are summarized below.

On 23rd May 2017, in execution of the preliminary agreement concluded on 11th May 2017, the final agreement was concluded with Herald Level 2 Lux Holding Sarl on the purchase of 100% of Retail Park One S.r.l. (merged into Novipraga SIINQ S.p.A.), owner of the Serravalle Retail Park. The acquisition was classified for accounting purposes as a purchase of assets, since the acquired fair value is basically focused on the acquired property assets.

Additionally, in keeping with the disposal strategy on non-core assets and investments, on 16th June 2017, a deed was concluded for the disposal of the interests in the subsidiary Golf Club Castello Tolcinasco SSD S.r.l., previously classified as “discontinued operation” from the first quarter 2017. The result of the company up to the disposal date and the effects of the disposal have been classified under “Gains/(losses) after tax from assets and liabilities held for sale”. For comparative purposes, the corresponding result of the prior period has also been classified under the item.

On 21st December 2017, Aedes SIIQ S.p.A. completed the purchase of the remaining 35% in the Petrarca Fund, with the transfer of the interests held by IFM Italy Office Fund GmbH & Co. KG (20%) and by IVG Logistics Holding S.A. (15%) to Aedes SIIQ.

4.13 Explanatory Notes to the Consolidated Statement of Financial Position, Cash Flows and Income Statement

ASSETS

Note 1. Investment property

(Euro/000)	Investment property	Properties under development	Total
Balance at 01/01/2016	**157,507**	**109,377**	**266,884**
Balance at 31/12/2016			
Net book value at 01/01/2016	157,507	109,377	266,884
Increases	41,570	6,470	48,040
Decreases	0	(5)	(5)
Reclassifications	(3,240)	(64)	(3,304)
Fair value adjustment	36,012	(6,239)	29,773
Net book value at 31/12/2016	**231,849**	**109,539**	**341,388**
Balance at 31/12/2017			
Net book value at 01/01/2017	231,849	109,539	341,388
Increases	56,137	16,710	72,847
Decreases	(1,860)	(3,126)	(4,986)
Fair value adjustment	18,594	2,280	20,874
Net book value at 31/12/2017	**304,720**	**125,403**	**430,123**

The company has a balance from investment property of Euro 430,123 thousand, up versus Euro 341,388 thousand in the prior year.

Increases in “Investment property”, amounting to Euro 56,137 thousand, refer, for Euro 38,416 thousand, to the purchase and consolidation of Retail Park One S.r.l. (merged into Novipraga SIINQ S.p.A. during the year), for Euro 15,095 thousand, to the purchase of the two office towers in Via Richard, Milan, and the remaining to investments in owned properties.

“Properties under development” shows increases of Euro 16,710 thousand, attributable to the capitalization on the Serravalle Retail, Serravalle Village, Caselle Designer Center, Lotto 10B and Nuovo Ramo Trasversale projects.

The reporting period saw positive fair value adjustments of Euro 18,594 thousand in investment property, of which:

- Euro 25,547 thousand from upward adjustments explained below:
  - Euro 9,605 thousand from the fair value adjustment of the two office towers in Via Richard, Milan;
  - Euro 8,100 thousand from the fair value adjustment of the property located in Via Agnello, Milan;
  - Euro 5,684 thousand from the fair value adjustment of the property held by Retail Park One S.r.l., now merged into Novipraga SIINQ S.p.A.;
  - Euro 770 thousand from the fair value adjustment of the properties and licences held by the Redwood Fund and Redwood S.r.l.;
  - Euro 1,388 thousand from other properties;
- Euro 6,953 thousand from downward adjustments mainly related to:
  - Euro 2,161 thousand from a number of properties and licences of the Redwood portfolio;
  - Euro 2,100 thousand from the property located in Via Etnea, Catania;
  - Euro 1,442 thousand from the properties held by the Petrarca Fund;
  - Euro 1,250 thousand from other properties.

Properties under development recorded, instead, net negative fair value adjustments of Euro 2,280 thousand, attributable mainly to:

- Euro 8,279 thousand from upward adjustments almost all attributable to the Caselle Design Center project;
- Euro 5,999 thousand from downward adjustments attributable to:
  - Euro 4,070 thousand from the change in the fair value of the Caselle Design Center project;
  - Euro 1,740 thousand from the change in the fair value of the Serravalle Retail Park - Phase C project;
  - Euro 189 thousand from the change in the fair value of other projects.

It should be noted that a number of these properties are subject to mortgages securing bank loans, explained in the specific liabilities section. The value of mortgages securing loans relates in many cases to the original amounts of the loans. In the event of sales of portions of properties or properties that are part of portfolios, with subsequent partial repayment of the loans, the mortgages originally registered on the entire properties package can be maintained for the full amount, encumbering only on the residual properties or portions. On the latter's sale, the mortgages are fully cancelled.

Here below are the changes in investment property acquired through finance leases, already entered in the previous table and an integral part of it:

(Euro/000)	Total
Balance at 31/12/2016	
Net book value at 01/01/2016	40,100
Increases	25
Fair value adjustment	275
Net book value at 31/12/2016	**40,400**
Net book value at 01/01/2017	
Historical cost	40,400
Net book value	40,400
Balance at 31/12/2017	
Net book value at 01/01/2017	**40,400**
Decreases	(40,400)
Net book value at 31/12/2017	**0**

The finance lease terminated following the refinancing transaction of the Parent Company as explained in Note 14.

Mention should be made that, in preparing these consolidated financial statements, the Group has made use of CB Richard Ellis Real and K2 as primary independent valuers to carry out surveys of the property portfolio.

Note 2. Other tangible fixed assets

(Euro/000)	Specific plant	Industrial and commercial equipment	Other assets	Total
Balance at 01/01/2016				
Historical cost	2,173	2,548	4,418	9,139
Depreciation fund	(2,051)	(442)	(3,605)	(6,098)
Net book value at 01/01/2016	**122**	**2,106**	**813**	**3,041**
Balance at 31/12/2016				
Net book value at 01/01/2016	122	2,106	813	3,041
Change in consolidation scope	0	3	(1)	2
Increases	3	323	109	435
Decreases	(6)	0	(9)	(15)
Amortization, depreciation and impairment losses	(19)	(397)	(239)	(655)
Net book value at 31/12/2016	100	2,035	673	2,808
Balance at 01/01/2017				
Historical cost	2,170	2,876	4,357	9,403
Depreciation fund	(2,070)	(841)	(3,684)	(6,595)
Net book value at 01/01/2017	**100**	**2,035**	**673**	**2,808**
Net book value at 01/01/2017	100	2,035	673	2,808
Change in consolidation scope	(4)	(8)	(5)	(17)
Increases	6	5	44	55
Decreases	0	0	(13)	(13)
Amortization, depreciation and impairment losses	(12)	(419)	(131)	(562)
Net book value at 31/12/2017	90	1,613	568	2,271
Balance at 31/12/2017				
Historical cost	2,172	2,864	4,166	9,202
Depreciation fund	(2,082)	(1,251)	(3,598)	(6,931)
Net book value	**90**	**1,613**	**568**	**2,271**

Other intangible fixed assets amounted to Euro 2,271 thousand at 31st December 2017 versus Euro 2,808 thousand at 31st December 2016.

Note 3. Intangible fixed assets

(Euro/000)	Other	Goodwill	Total
Balance at 01/01/2016			
Historical cost	931	1,269	2,200
Depreciation fund	(867)	0	(867)
Net book value at 01/01/2016	**64**	**1,269**	**1,333**
Balance at 31/12/2016			
Net book value at 01/01/2016	64	1,269	1,333
Change in consolidation scope	0	(1,269)	(1,269)
Increases	23	0	23
Amortization, depreciation and impairment losses	(28)	0	(28)
Net book value at 31/12/2016	59	0	59
Balance at 01/01/2017			
Historical cost	954	0	954
Depreciation fund	(895)	0	(895)
Net book value	59	0	59
Net book value at 01/01/2017	59	0	59
Increases	49	0	49
Amortization, depreciation and impairment losses	(36)	0	(36)
Net book value at 31/12/2017	72	0	72
Balance at 31/12/2017			
Historical cost	436	0	436
Depreciation fund	(364)	0	(364)
Net book value	**72**	**0**	**72**

Goodwill was nil at 31st December 2016, had amounted to Euro 1,269 thousand and was entirely attributable to the subsidiary Aedes Real Estate SGR S.p.A., disposed of in 2016.

Other intangible fixed assets amounted to Euro 72 thousand and recorded no significant change versus 31st December 2016.

Note 4. Investments in companies measured at equity

"Investments measured at equity" includes investments in associates and joint ventures:

(Euro/000)	Amounts at 31/12/2016	Increases	Decreases	Reval. (+) Wr.-down (-)	Amounts at 31/12/2017	% of investment
Investments in associates and joint ventures						
Aedilia Nord Est S.r.l. - Pival S.r.l.	971	0	0	(162)	809	56.52%
Borletti Group SAM S.A.	0	181	0	0	181	40.00%
Efir S.à.r.l. - Dante Retail Fund	19,943	0	(1,000)	1,151	20,094	33.33%
Leopardi Fund	7,956	0	0	(3,124)	4,832	24.39%
InvesCo S.A.	0	2,829	0	0	2,829	40.00%
Nichelino Village S.c.a.r.l.	5	0	0	0	5	50.00%
Parco Grande S.c.a.r.l.	5	0	(5)	0	0	0.00%
Pragasei S.r.l.	11,577	476	0	(554)	11,499	50.10%
Serravalle Village S.c.a.r.l.	5	0	0	0	5	50.00%
Total	**40,462**	**3,486**	**(1,005)**	**(2,689)**	**40,254**	

At 31st December 2017, the item amounted to Euro 40,254 thousand versus Euro 40,462 thousand at 31st December 2016.

Changes can be summarized as follows.

Increases refer to the investment in the capital of the companies (Borletti Group SAM S.A. and InvesCo S.A.) that will implement "The Market", and to the payment for a share capital increase granted by Aedes SIIQ S.p.A. to the joint venture Pragasei S.r.l. through waiver of the shareholder loan of Euro 476 thousand.

Decreases refer, instead, to the investment in Efir S.à.r.l. - Dante Retail Fund, regarding the redemption of shares made during the period, and to Parco Grande S.c.a.r.l., liquidated in 2017.

Write-downs and revaluations refer to the effects of the measurement of investments at equity.

The Dante Retail Fund, wholly-owned by Efir S.à.r.l., has a derivative contract in place with a notional amount of Euro 37,500 thousand Bullet, fixed rate at 0.12%, with a fair value at 31st December 2017 of Euro -129 thousand.

Pragasei S.r.l. has the following derivative contracts in place:

- CAP with a notional amount of Euro 4,213 thousand Bullet, rate at 1.5%, concluded on 4th July 2016 and expiring on 27th January 2023, with a fair value at 31st December 2017 of Euro +20 thousand;
- CAP with a notional amount of Euro 17,495 thousand Bullet, rate at 1.5%, concluded on 17th January 2017 and expiring on 27th January 2023, with a fair value at 31st December 2017 of Euro +95 thousand;
- CAP with a notional amount of Euro 4,300 thousand Bullet, rate at 1.5%, concluded on 18th July 2017 and expiring on 27th January 2023, with a fair value at 31st December 2017 of Euro +23 thousand.

As required by IFRS 12, the table below shows the reconciliation between the net assets held by the main associates and their carrying amount:

(Euro/000)	Aedilia Nord Est S.r.l.		Efir S.à.r.l. - Dante Retail Fund		Leopardi Fund	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Net asset	6,292	6,618	56,996	58,372	19,811	32,630
Elimination of intra-group profit	(4,006)	(4,006)	0	0	0	0
Adjustment from measurement at equity of subsidiaries	(508)	(168)	3,291	1,464	0	0
Other adjustments	(347)	(727)	0	0	0	(7)
% held	56.52%	56.52%	33.33%	33.33%	24.39%	24.39%
Carrying amount	**809**	**971**	**20,094**	**19,943**	**4,832**	**7,956**

As required by IFRS 12, the table below shows the reconciliation between the net assets held in joint venture and their carrying amount:

(Euro/000)	Pragasei S.r.l.	
	31/12/2017	31/12/2016
Net asset	687	(459)
Fair value adjustment of property assets net of tax effect	22,232	23,531
Other adjustments	34	36
% held	50.10%	50.10%
Carrying amount	**11,499**	**11,577**

A summary of the financial statements figures of companies measured at equity is shown in Annex 3.

Note 5. Available-for-sale financial assets

The item shows a balance equal to nil at 31st December 2017, and included the value of the investment in Roma Development S.r.l., owner of a development area in La Storta, Rome.

On 28th November 2017, Aedes disposed of its investment in Roma Development S.r.l. and the financial receivable due from the company which had already been completely written off. The sale generated a positive economic effect of Euro 200 thousand classified in “Other revenue” in the income statement.

Note 6. Deferred taxes

(Euro/000)	31/12/2017	31/12/2016
Deferred tax assets		
- Prepaid taxes recoverable after 12 months	6,030	6,379
	6,030	**6,379**
Deferred tax liabilities		
- Deferred taxes recoverable after 12 months	(3,709)	(3,921)
	(3,709)	**(3,921)**
Total	**2,321**	**2,458**

Deferred tax assets show a net balance of Euro +2,321 thousand at 31st December 2017 versus Euro -2,458 thousand at 31st December 2016.

The table below shows the breakdown of deferred taxes:

(Euro/000)	31/12/2017			31/12/2016		
	Amount of temporary differences	Tax effect (rate%)	Total	Amount of temporary differences	Tax effect (rate%)	Total
Prepaid taxes:						
Prepaid on tax losses	25,033	24.00%	6,008	26,463	24.00%	6,351
Other residual	92	24.00%	22	117	24.00%	28
Non-current	**25,125**		**6,030**	**26,579**		**6,379**
Total	**25,125**		**6,030**	**26,579**		**6,379**
Deferred taxes:						
Difference between book value and tax value of inventory and investment property	(4,462)	27.90%	(1,245)	(4,746)	27.90%	(1,324)
Difference between book value and tax value of investments in joint ventures	(10,238)	24.00%	(2,457)	(10,821)	24.00%	(2,597)
Other residual	(29)	24.00%	(7)			
Non-current	**(14,700)**		**(3,709)**	**(15,566)**		**(3,921)**
Total	**(14,700)**		**(3,709)**	**(15,566)**		**(3,921)**
Net prepaid/(Deferred) taxes	**10,425**		**2,321**	**11,013**		**2,458**

The Group has accumulated losses, as emerging from the National and Worldwide Consolidation Form in 2017, totaling Euro 211,978 thousand, which increase to approximately Euro 212,144 thousand in the current year, due mainly to the tax loss from the management of taxable income of Società Agricola La Bollina S.r.l. and Pragaotto S.r.l..

The Group has booked only a minimal amount of deferred assets for tax losses, also in consideration of the recommendations of Consob communication no. 0003907 of 19th January 2015, which states that the booking of a deferred tax asset for tax losses can be recognized "to the extent that future taxable profit will likely be available against which tax losses can be utilized", as provided by IAS 12.

As a result, in 2017 too, the Group has conservatively recognized deferred tax assets on tax losses amounting to Euro 6,008 thousand up to the 80% limit of deferred tax assets booked in these consolidated financial statements, as well as deferred tax (IRES) considered implicitly in the value of the investment in the joint ventures participating in the tax consolidation scheme of Aedes SIIQ S.p.A..
At 31st December 2017, deferred taxes booked amounted to Euro 3,709 thousand, arising mostly from the temporary misalignment between the book value and tax value of the property assets and investments in joint ventures.

Note 7. Derivative financial instruments

(Euro/000)	31/12/2017		31/12/2016	
	Assets	Liabilities	Assets	Liabilities
Current portion				
Fair value Cap	45	0	230	0
Fair value Floor	0	283	0	605
Total	**45**	**283**	**230**	**605**

The item shows the fair value of derivative contracts concluded by the Parent Company with Banca Popolare di Milano S.c.a.r.l., aimed at reducing the risk of increasing the Group's overall interest rate exposure.

As in the prior year, the Group appointed Ernst & Young Financial-Business Advisors S.p.A. as the independent valuer tasked with fair value measurements: at 31st December 2017, the measurements amounted to Euro 45 thousand in assets from the fair value of the "Cap" derivative contract, and to Euro 283 thousand in liabilities from the fair value of the "Floor" derivative contract. The change in fair value was recognized in the income statement under "Financial charges".

The table below shows derivative financial instruments at 31st December 2017:

(Euro/000)	Type	Notional	Fair Value	Contract deadline	Borrowing rate	Lending rate
Hedge provider						
Banca Popolare di Milano	Cap	50,000	45	31/12/2020	1%	3m Euribor q,A/360
Banca Popolare di Milano	Floor	50,000	(283)	31/12/2020	0%	3m Euribor q,A/360

The fair value of outstanding derivative financial instruments at 31st December 2017 was measured using the level 2 hierarchy (fair value determined on the basis of valuation models that use observable market inputs).

Note 8. Financial receivables

(Euro/000)	31/12/2017	31/12/2016
Non-current receivables		
Receivables from associates	12,563	20,283
Provision for bad debts from associates	(61)	(6,717)
Receivables from others	74	84
Total	**12,576**	**13,650**

(Euro/000)	31/12/2017	31/12/2016
Current receivables		
Receivables from associates	300	0
Total	**300**	**0**

Non-current financial receivables totaled Euro 12,576 thousand at 31st December 2017 versus Euro 13,650 thousand at 31st December 2016.
Receivables due from associates refer to loans granted at normal market conditions all with maturity over 12 months. The breakdown of receivables due from associates is shown in Annex 2. The collection of these receivables is related to the development and sale of property assets owned by the associates.

The significant change is attributable to the contract concluded on 15th December 2016 by Aedes SIIQ S.p.A. with Sator Immobiliare SGR S.p.A. and Rubattino 87 S.r.l., to lay down arrangements for adjusting receivables and payables of Aedes SIIQ S.p.A. from and to associates through the Leopardi Fund; such an agreement, as amended on 22nd February 2017, provides for the offsetting of amounts, the transfer of properties and the assumption of the relating loan. The offsetting of receivables and payables became effective on the date of these financial statements. The transfer of properties is suspended on condition of the lenders' approval of Aedes's takeover of the debt arising from the properties subject to transfer, a condition to be fulfilled by 31st March 2018.
The write-down of financial receivables due from associates was made in order to adjust them to their presumed realizable value, as a result of the joint assessment made on financial receivables and investments.

The current receivables of Euro 300 thousand at 31st December 2017 refer to the share of the loan granted by Praga Res S.r.l. to the associate Serravalle Village S.c.a.r.l., which was repaid in January 2018.

The maturity of total financial assets is between 1 and 5 years.

Note 9. Trade and other receivables

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Receivables from others	0	242
Tax receivables	636	894
Total	**636**	**1,136**

(Euro/000)	31/12/2017	31/12/2016
Current		
Receivables from clients	17,880	13,869
Provision for bad debts	*(5,593)*	*(4,821)*
Net receivables from clients	12,287	9,048
Receivables from associates and other related parties	*3,258*	*9,338*
Provision for bad debts	*(198)*	*(3,138)*
Receivables from associates and other related parties	3,060	6,200
Receivables from parent companies	72	32
Receivables from others	654	146
Tax receivables	4,758	11,075
Accrued income and prepaid expenses	761	544
Total	**21,592**	**27,045**

The book value of trade and other receivables is deemed to approximate their fair value.

The table below shows the maturity of current and non-current trade receivables (due from clients, associates and parent companies):

(Euro/000)	Falling due	Overdue by						Total
		Less than 30 days	30 - 60 days	61 - 90 days	91 - 180 days	181 - 360 days	Over 360 days	
Gross Value	5,629	2,228	4,336	688	635	1,936	5,758	21,210
Provision for bad debts	0	0	0	0	(12)	(343)	(5,436)	(5,791)
Net trade receivables	**5,629**	**2,228**	**4,336**	**688**	**623**	**1,593**	**322**	**15,419**

RECEIVABLES FROM CLIENTS

Receivables from clients refer basically to lease revenue and to revenue from the provision of services to third parties, amounting to Euro 17,880 thousand at 31st December 2017 versus Euro 13,869 thousand at 31st December 2016. The overall net increase is mainly attributable to consideration of Euro 4,216 thousand that has yet to be collected and is held in an escrow account in favour of the Parent relating to the sale of the property called Lotto 10B.

Receivables from clients are stated net of the relevant bad debts provisions, whose changes are shown below:

(Euro/000)	
Balance at 31/12/2016	**4,821**
Provisions	211
Utilization	(6)
Release	(41)
Change in consolidation scope	608
Balance at 31/12/2017	**5,593**

The bad debts provision shows a net change in the scope, attributable to the consolidation of Retail Park One S.r.l. (now merged into Novipraga SIINQ S.p.A.) and to the deconsolidation of Golf Club Tolcinasco SSD S.r.l..

RECEIVABLES FROM OTHERS

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Other	0	242
Non-current receivables from others	**0**	**242**

(Euro/000)	31/12/2017	31/12/2016
Current		
Advances to suppliers	298	1
Other	356	145
Current receivables from others	**654**	**146**

“Non-current receivables from others”, nil at 31st December 2017, amounted to Euro 242 thousand and referred to the portion of tax receivables claimed as refund by the liquidator of Aedificandi S.r.l., liquidated in July 2014, and pertaining to Aedes as former shareholder. In 2017, these receivables were reclassified to “Non-current tax receivables”.

“Current receivables from others”, amounting to Euro 654 thousand at 31st December 2017 versus Euro 146 thousand at 31st December 2016, is composed mainly of receivables from employees as well as of receivables for advances to suppliers. The increase is mainly attributable to the consolidation of Retail Park One S.r.l., which was merged into Novipraga SIINQ S.p.A. during the year.

TAX RECEIVABLES

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Receivables from the Revenue Agency for VAT	145	145
Receivables from the Revenue Agency for taxes	883	749
Provision for bad debts for tax from the Revenue Agency	(392)	0
Non-current tax receivables	**636**	**894**

(Euro/000)	31/12/2017	31/12/2016
Current		
Receivables from the Revenue Agency for VAT	1,912	2,360
Receivables from the Revenue Agency for taxes	2,846	8,715
Current tax receivables	**4,758**	**11,075**

The non-current portion of tax receivables is made up of:
- Euro 243 thousand from the Company’s share in the tax receivable claimed by Aedificandi S.r.l., liquidated in July 2014, and reclassified in 2017 under “Other non-current receivables”;
- Euro 392 thousand from foreign tax shown in the National and Worldwide Consolidation Form of former Praga Holding S.p.A., which can be carried forward for up to eight financial years; the receivable was written down in the year to adjust it to the relating fair value;
- Euro 159 thousand from the tax receivable claimed by Aedes Project S.r.l. (and booked in Aedes SIIQ S.p.A. following liquidation of the company) and by its consortium companies Ravizza S.c.a.r.l. and Parco Grande S.c.a.r.l., liquidated in July 2017;
- Euro 89 thousand from receivables for VAT paid in 2007 by Praga Holding S.p.A. as a result of a fractional payment pending judgement.

Current tax receivables amount to Euro 4,758 thousand versus Euro 11,075 thousand in the prior year, and refer to Euro 1,912 thousand for VAT receivables from the Revenue Agency (Euro 2,360 thousand in the prior year) and Euro 2,846 thousand for tax receivables (Euro 8,715 thousand in the prior year).

Mention should be made that Aedes SIIQ S.p.A., together with various subsidiaries, opted, for tax year 2017, for the specific VAT offsetting procedure provided by Ministerial Decree of 13th December 1979, containing the regulations for the implementation of the provisions pursuant to art. 73, last paragraph (so-called Group VAT settlement procedure). Here below is the list of the subsidiaries that participated in Group VAT settlement in 2017: Novipraga SIINQ S.p.A., Praga Res S.r.l. former Praga Construction S.r.l., Pragaotto S.r.l., Pragaquattro Center SIINQ S.p.A., Pragasette S.r.l. in liquidation, Pragaundici SIINQ S.p.A. and S.A.T.A.C. SIINQ S.p.A., in addition to Cascina Praga SIINQ S.p.A. (merged into Aedes SIIQ S.p.A. during the year) and Praga Service R.E. S.r.l. (merged into Praga Res S.r.l. during the year).

The current portion of tax receivables comprises mainly:
- Euro 804 thousand from IRES receivables arisen in prior years as part of the tax consolidation scheme of Aedes SIIQ S.p.A.;
- Euro 537 thousand from unused IRAP receivables arisen in prior years;
- Euro 268 thousand from the receivable booked in prior years under Receivables from the Revenue Agency for non-current taxes as a result of the non-deduction of IRAP, in the amount legally allowed (art. 6, par. 1, of

Decree Law no. 185 of 29th November 2008, converted, following amendments, by Law no. 2 of 28th January 2009, which introduced partial deductibility, for income tax purposes, of the regional tax on productive activities); a procedure had already been opened to claim a refund of the receivable;
- Euro 226 thousand from IRES and IRAP refunds claimed in 2012 by the Company and by the companies participating in the national tax consolidation scheme;
- Euro 156 thousand from IRES receivables of Aedes SIIQ S.p.A.;
- Euro 544 thousand from receivables arising from the instalment payment by Praga Res S.r.l. (former Praga Construction S.r.l.) of assessed tax arrears, following the opening of a procedure for the compulsory fractional payment pending judgement, which is deemed recoverable;
- Euro 311 thousand from tax receivables held by the Parent Company and its Subsidiaries.

The sharp drop in current tax receivables is attributable to the refund received of Euro 6,346 thousand, in addition to interest accrued of Euro 190 thousand relating to the receivable for the substitute tax under Law no. 266/2005, arising in 2010, of Mercurio S.r.l., merged by incorporation into Aedilia Sviluppo 1 S.r.l. in liquidation and transferred by the latter to the parent company Aedes SIIQ S.p.A. as part of the national tax consolidation scheme.

RECEIVABLES FROM PARENT COMPANIES

This item originated mainly from the provision by Aedes SIIQ S.p.A. of coordination, administration and company services to the parent company Augusto S.p.A..

RECEIVABLES FROM ASSOCIATES AND OTHER RELATED PARTIES

The significant change is attributable to the contract concluded on 15th December 2016 by Aedes SIIQ S.p.A. with Sator Immobiliare SGR S.p.A. and Rubattino 87 S.r.l., to lay down arrangements for adjusting receivables and payables of Aedes SIIQ S.p.A. from and to associates through the Leopardi Fund; such an agreement, as amended on 22nd February 2017, provides for the offsetting of amounts, the transfer of properties and the assumption of the relating loan. The offsetting of receivables and payables became effective on the date of these financial statements. The transfer of properties is suspended on condition of the lenders' approval of Aedes's takeover of the debt arising from the properties subject to transfer, a condition to be fulfilled by 31st March 2018.

As a result of this agreement taking effect, the above receivables were adjusted to the values set out in the agreement referred to previously and therefore resulted in an impairment reversal of Euro 761 thousand being recorded.

For the breakdown of receivables from parent companies, associates and other related parties, see Annex 2.

ACCRUED INCOME AND PREPAID EXPENSES

The table below shows the breakdown of the current portion of accrued income and prepaid expenses:

(Euro/000)	31/12/2017	31/12/2016
Deferred income on property management	111	264
Prepayments for sureties	122	22
Other accrued income and prepaid expenses	528	258
Current accrued income and prepaid expenses	**761**	**544**

Accrued income and prepaid expenses shows a balance of Euro 761 thousand versus Euro 544 thousand, with no significant changes reported from the prior year.
"Other accrued income and prepaid expenses" consists primarily of membership fees and subscriptions, and of various insurance premiums paid in advance but relating to future periods.

Note 10. Inventory

(Euro/000)	31/12/2017	31/12/2016
Properties and licences	49,531	55,680
Non-real estate inventory	627	650
Total	**50,158**	**56,330**

Inventory at 31st December 2017 amounted to Euro 50,158 thousand versus Euro 56,330 thousand in the prior year.

The table below shows the changes in inventory versus the prior year:

(Euro/000)	Properties and licences	Non-real estate inventory	Total
Balance at 31/12/2016	**55,680**	**650**	**56,330**
Increases	364	1,660	2,024
Decreases	(4,677)	(1,683)	(6,360)
(Write-down)/Reversals	(1,836)	0	(1,836)
Balance at 31/12/2017	**49,531**	**627**	**50,158**

Real estate inventory and licences amounted to Euro 49,531 thousand at 31st December 2017 versus Euro 55,680 thousand at 31st December 2016;

"Decreases" in properties and licences include costs of sales of property units and properties sold during the year, specifically:

- Euro 970 thousand from the sale of portions of the Platform 9 complex in Via Pompeo Leoni/De Angeli, Milan;
- Euro 3,707 thousand from the sale of a property unit in France at Blv. Croisette, 2 - Callisto 1° floor.

Write-downs of Euro -1,836 thousand at 31st December 2017 are shown below:

- Euro 670 thousand from La Bollina, CMS residential development;
- Euro 500 thousand from the Cascina Nuova property;
- Euro 256 thousand from the property in Bv. Croisette, Cannes;
- Euro 250 thousand from the commercial building area at Castellazzo;
- Euro 160 thousand from other properties.

Non-real estate inventory refers mainly to the wine-making business of the subsidiary Società Agricola La Bollina S.r.l. and to the wholesale trade of alcoholic beverages of the subsidiary Bollina S.r.l..

Several of these properties have been subject to mortgages securing loans, explained in the specific liabilities section. The value of mortgages securing loans relates in many cases to their original amounts. In the event of sales of portions of properties or properties that are part of portfolios, with subsequent partial repayment of the loans, the mortgages originally registered are limited and maintained for the full amount solely on the residual properties or portions. On the latter's sale, the mortgages are fully cancelled.

Note 11. Cash and cash equivalents

(Euro/000)	31/12/2017	31/12/2016
Cash on hand	11	15
Bank and postal deposits	16,192	10,643
Term current accounts	7,038	1,952
Total	**23,241**	**12,610**

The item shows a balance of Euro 23,241 thousand versus Euro 12,610 thousand in the prior year.
Further details on the Group's financial trends are found in the "Consolidated Statement of Cash Flows".

EQUITY

Note 12. Group Equity

At 31st December 2017, the Parent Company's share capital, fully subscribed and paid in, amounts to Euro 212,945,601.41, divided into 319,803,191 ordinary shares, with no par value.

"Treasury shares" changed as a result mainly of the disposal of 3,500,000 Aedes ordinary shares held in portfolio at 31st December 2017. The remaining amount of treasury shares held in portfolio refers exclusively to the liquidity provider.

The table below summarizes the changes in the treasury shares reserve:

	No. shares	Amount in Euro	Average carrying amount in Euro
Final balance at 31/12/2015	**539,000**	**265,976**	**0.49**
Purchase of treasury shares 2016	2,969,000	1,192,612	0.40
Liquidity provider	(8,000)	(4,156)	0.52
Final balance at 31/12/2016	**3,500,000**	**1,454,432**	**0.42**
Disposal of treasury shares 2017	(3,500,000)	(1,454,432)	
Liquidity provider	30,000	13,806	0.46
Final balance at 31/12/2017	**30,000**	**13,806**	**0.46**

Other equity reserves include fair value measurement reserves, the provision for share capital increases and the legal reserve.

The change in "Retained earnings/(losses carried forward)" is attributable mainly to the allocation of profit for 2016 approved at the Shareholders' Meeting on 27th April 2017, and to the positive impact on Group equity deriving from the acquisition of the remaining 35% in the Petrarca Fund, as the amount transferred following the purchase of the above shares was lower than the acquired equity of minorities.

Note 13. Equity attributable to minorities

Equity attributable to minorities consists of the portions of capital and reserves, as well as the profit/loss for the period attributable to minorities relevant to the fully consolidated subsidiaries. The table below shows the breakdown of the item.

(Euro/000)	Geographical area	% held by minorities		Profit/(Loss) attributable to minorities		Equity attributable to minorities	
Company Name		**31/12/2017**	**31/12/2016**	**31/12/2017**	**31/12/2016**	**31/12/2017**	**31/12/2016**
Aedes Project S.r.l. in liquidation	Italy	9.00%	9.00%	0	4	0	(362)
Bollina S.r.l.	Italy	30.00%	30.00%	75	41	143	67
Petrarca Fund	Italy	0.00%	35.00%	(65)	1,267	0	7,476
Pragafrance S.à.r.l.	France	25.00%	25.00%	(246)	(190)	(433)	(185)
Pragasette S.r.l.	Italy	40.00%	40.00%	(51)	(15)	(95)	(43)
Total				**(287)**	**1,107**	**(385)**	**6,953**

The change in minorities' equity is attributable to the acquisition of the remaining 35% of the units of the Petrarca Fund and the completion of the winding-up process of the subsidiary Aedes Project S.r.l. in liquidation.

LIABILITIES

Note 14. Payables to banks and other lenders

Payables to banks and other lenders are broken down as follows:

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Bonds	43,992	0
Loans with properties granted as surety	118,990	111,667
Payables to leasing companies for properties under finance lease	*0*	*15,413*
Mortgage loans	*118,990*	*96,254*
Payables to other lenders	11,245	1,346
Other loans	0	853
	174,227	**113,866**
Current		
Bonds	145	0
Loans with properties granted as surety	53,402	28,599
Payables to leasing companies for properties under finance lease	*0*	*1,314*
Mortgage loans	*53,402*	*27,285*
Payables to other lenders	336	250
Other loans	10,860	20,513
	64,743	**49,362**
Total	**238,970**	**163,228**

Financial payables held by associates are shown in Annex 3.

The table below shows the breakdown of net financial debt prepared in compliance with Consob Communication DEM/6064293 of 28th July 2006:

(Euro/000)		31/12/2017	31/12/2016
A.	Cash on hand	23,241	12,610
B.	Other cash and cash equivalents	0	0
C.	Securities held for trading	0	0
D.	**Total cash and cash equivalents (A) + (B) + (C)**	**23,241**	**12,610**
E.	**Current financial receivables**	**0**	**0**
F.	Current payables to banks	(64,262)	(47,798)
G.	Current portion of non-current debt	(145)	0
H.	Other current financial payables	(336)	(1,564)
I.	**Current financial debt (F)+(G)+(H)**	**(64,743)**	**(49,362)**
J.	**Net current financial debt (I) + (E) + (D)**	**(41,502)**	**(36,752)**
K.	Non-current payables to banks	(118,990)	(97,107)
L.	Bonds issued	(43,992)	0
M.	Other non-current payables	(11,528)	(17,364)
N.	**Non-current financial debt (K) + (L) + (M)**	**(174,510)**	**(114,471)**
O.	**Net financial debt (J) + (N)**	**(216,012)**	**(151,223)**

The table below shows the reconciliation of net financial position figures shown in the Directors' Report on Operations with the above table:

(Euro/000)	31/12/2017	31/12/2016
Net financial debt included in the Directors' Report on Operations	(215,729)	(150,618)
Other non-current financial payables from derivative contracts	(283)	(605)
Net financial debt included in the Explanatory Notes	**(216,012)**	**(151,223)**

Set out below is a reconciliation of the changes in current and non-current financial debt with monetary and non-monetary items being shown separately:

	31/12/2016	Non-cash movements	Cash movements		31/12/2017
		Financial charges (accrued)	Financial charges (paid/received)	Changes in payables to banks and other lenders	
Current and non-current payables to banks and other lenders	163,228	5,496	(6,745)	76,991	238,970
Derivative financial instruments	605	(322)			283
Gross financial debt	**163,833**	**5,174**	**(6,745)**	**76,991**	**239,253**

The table below shows the breakdown of loans:

(Euro/000) Type of loan agreement	Project/Property Assets	Short-term debt Within 1 month	Short-term debt from 2 to 3 months	Short-term debt from 4 to 12 months	Long-term debt	Total debt	Due	Mortgage on properties/ guarantees	Financial covenants	Compliance with covenant
Mortgage Loan	Santa Vittoria d'Alba (CN) - PHASE B	0	109	306	6,091	6,506	30/11/2030	16,000	LTV≤80 %	YES
Mortgage Loan	Santa Vittoria d'Alba (CN) - PHASE B	18	5	54	321	398	30/04/2023	1,000	LTV≤80 %	YES
Mortgage Loan	Serravalle Scrivia (AL) - Cascina Nuova	34	0	0	2,490	2,524	01/07/2025	5,000	LTV≤80 %	YES
Mortgage Loan	Santa Vittoria d'Alba (CN) - PHASE D	66	133	66	0	265	17/04/2018	5,800	LTV≤80 %	YES
Mortgage Loan	Milan - Via Pompeo Leoni	0	0	634	4,891	5,525	31/12/2025	10,543	LTV≤80 %	YES
Mortgage Loan	Serravalle Scrivia (AL) - Bollina	0	198	3,460	6,923	10,581	31/12/2020	37,500	LTV≤80 %	YES
Mortgage Loan	Serravalle Scrivia (AL) - Bollina	30	0	18	758	806	25/07/2034	1,350	LTV≤80 %	YES
Mortgage Loan	Serravalle Scrivia (AL) - Via Novi	0	178	130	2,951	3,259	01/03/2024	8,000	LTV≤80 %	YES
Mortgage Loan	Serravalle Scrivia (AL) - Via Novi	0	1,876	0	0	1,876	27/02/2018	3,700	LTV≤80 %	YES
Mortgage Loan	Castellazzo Bormida (AL)	0	67	200	667	934	30/06/2021	2,800	LTV≤80 %	YES
Mortgage Loan	Castellazzo Bormida (AL)	0	105	316	1,131	1,552	22/06/2021	5,600	LTV≤80 %	YES
Mortgage Loan	Castellazzo Bormida (AL)	28	0	76	301	405	22/07/2021	1,400	LTV≤80 %	YES
Mortgage Loan	Portfolio	0	7	42,496	0	42,503	31/12/2018	85,006	LTV≤65 %; ISCR≥1.35	YES*
Mortgage Loan	2 Boulevard Croisette - Cannes	0	44	125	626	795	05/06/2022	2,210	NO	n.a.
Mortgage Loan	2 Boulevard Croisette - Cannes	0	30	89	539	658	05/03/2023	3,770	NO	n.a.
Mortgage Loan	Portfolio	0	114	574	50,352	51,040	11/04/2020	112,000	LTV≤55%; ICR≥2.5; DSCR≥1.25; DSCR Borrower ≥1.1	YES**
Mortgage Loan	Serravalle Retail Park	2	0	7	31,112	31,121	18/12/2022	90,200	LTV≤55%; LTC ≤65%; ICR≥1.75; DYR≥5.5%	YES
Mortgage Loan	Portfolio	0	195	1,585	8,346	10,126	31/12/2021	30,000***	LTV≤50%; ICR≥1.3; DSCR≥1.3	YES
Mortgage Loan	Rome	0	27	0	1,491	1,518				
Total loans with properties granted as surety		**178**	**3,088**	**50,136**	**118,990**	**172,392**				
Agricultural Promissory Note	n.a.	200	0	0	0	200	22/09/2018	Other guarantees	n.a.	n.a.
Hot Money	n.a.	104	255	506	0	865	31/08/2018	Unsecured	n.a.	n.a.
Loan agreement	n.a.	0	16	18	0	34	27/06/2018	Other guarantees	n.a.	n.a.
Loan agreement	n.a.	0	23	0	0	23	01/03/2018	Other guarantees	n.a.	n.a.
Loan agreement	n.a.	0	15	0	0	15	01/03/2018	Other guarantees	n.a.	n.a.
Loan agreement	n.a.	0	0	7,979	0	7,979	27/12/2018	Other guarantees	n.a.	n.a.
Bank overdraft	n.a.	0	1	0	0	1	01/03/2018	Unsecured	n.a.	n.a.
Bank overdraft	n.a.	0	11	0	0	11	Committed	Unsecured	n.a.	n.a.
Bank overdraft	n.a.	918	61	0	0	979	Committed	Unsecured	n.a.	n.a.
Bank overdraft	n.a.	1	1	0	0	2	Committed	Unsecured	n.a.	n.a.
Bank overdraft	n.a.	388	23	0	0	411	Committed	Other guarantees	n.a.	n.a.
Bank overdraft	n.a.	249	11	0	0	260	Committed	Unsecured	n.a.	n.a.
Bank overdraft	n.a.	0	0	0	0	0	Committed	Unsecured	n.a.	n.a.
Bank overdraft	n.a.	62	17	0	0	79	Committed	Other guarantees	n.a.	n.a.
Bank overdraft	n.a.	0	1	0	0	1	Committed	Unsecured	n.a.	n.a.
Total other loans		**1,922**	**435**	**8,503**	**0**	**10,860**				
Bonds	n.a.	96	0	0	14,789	14,885	30/04/2020	Unsecured	n.a.	n.a.
Bonds	n.a.	0	0	49	29,203	29,252	20/12/2020	Unsecured	Equity/Debt ≥ 1; NFP/VPA ≤ 60%	YES
Total bonds		**96**	**0**	**49**	**43,992**	**44,137**				
Total financial payables		**2,196**	**3,523**	**58,688**	**162,982**	**227,389**				
Payables to other lenders		86	0	250	11,245	11,581				
Total payables to other lenders		**86**	**0**	**250**	**11,245**	**11,581**				
Total gross debt at 31/12/2017		**2,282**	**3,523**	**58,938**	**174,227**	**238,970**				

(*) At 31st December 2017, the LTV ratio had not been met. This does not constitute a relevant event given the applicability of the remediation mechanism that can be triggered under the contract.

(**) At 31st December 2017, the historic borrower DSCR ratio had not been met. This does not constitute a relevant event given the applicability of the remediation mechanism that can be triggered under the contract.

(***) Mortgage on the properties in the Redwood portfolio held by Aedes SIIQ S.p.A., except for the property in Via Salaria, Rome, which is held by the Redwood Fund.

BONDS

On 12th April 2017, Aedes SIIQ S.p.A. issued a non-convertible bond of Euro 15 million, finalized on 20th April 2017, of which Euro 5 million subscribed on 18th December 2017.

The unlisted and unrated bond has the following characteristics:

- maturing in Q4 2018, it may be extended for an additional 18 months at the Company's discretion and therefore classified as non-current financial debt;
- 3-month Euribor rate + 5% spread.

Subsequently, on 18th December 2017 the Company issued a bond of Euro 30 million aimed at professional and institutional investors through Banca Profilo, which acted as arranger and placement agent and subscribed to a portion of the bond. On 19th December, the bond was admitted to trade on the ExtraMOT PR market, with the following characteristics:

- 18 months extendable for a further 18 months at the discretion of the issuer;
- fixed rate of 5% for the first 18 months and, if extended, of 5.5% for the following 18 months.

OTHER LOANS

In April 2017, the payable towards Unicredit Leasing for the property in Via Agnello 12, Milan, was repaid in advance.

PAYABLES TO OTHER LENDERS

On 20th April 2017, the Company concluded a shareholder loan agreement of Euro 10,000 thousand with the controlling shareholder Augusto S.p.A., expiring on 31st October 2018, with the possibility of extending the loan for a further 18 months, at a 3-month Euribor rate plus a 5% spread.

MORTGAGE LOANS

In December 2017, Aedes SIIQ S.p.A. concluded an agreement with UniCredit S.p.A. to take out a mortgage loan of Euro 45.1 million to refinance Phase A and B of the Serravalle Retail Park for Euro 32 million, and to finance the development of Phase C for approximately Euro 13.1 million. The loan has a 5-year term and a floating rate equal to the 6-month Euribor plus 2.75%.

For further details, see the section “Consolidated net financial debt” in the Directors' Report.

Note 15. Payables for employee severance indemnity

(Euro/000)	31/12/2017	31/12/2016
Payables for severance indemnity		
Severance indemnity	1,073	1,047
	1,073	**1,047**
Provisions under the income statement		
Service costs	273	251
Interest cost	16	22
Total	**289**	**273**

The provision for severance indemnity in the income statement is classified, for service costs, under personnel expenses, as explained in Note 23, and, for interest costs, under financial charges.

The changes are shown below:

(Euro/000)	
Balance at 31/12/2016	**1,047**
Service costs	273
Interest cost	16
Actuarial gains/(losses) under equity	(101)
Indemnities paid in the period	(28)
Transfers to other pension funds	(117)
Change in consolidation scope	(17)
Balance at 31/12/2017	**1,073**

The exact headcount at the end of the reporting period is split up by category as follows:

(unit)	31/12/2017	31/12/2016
Executives	9	8
Managers	29	30
Employees	19	21
Workers/Porters	4	6
Total	**61**	**65**

The reduction in the headcount is due mainly to the disposal of the investment in Golf Club Castello Tolcinasco S.r.l..

Under IAS 19, payables from severance indemnity are recognized according to the accrued benefits method using the Projected Unit Credit Method, determining:

- the cost of the service already rendered by the employee (Past Service Liability);
- the cost of the service rendered by the employee in the year (Service Cost);
- the cost of personnel recruited in the year (Past Service Liability of new recruits);
- the interest costs from actuarial liabilities (Net Interest Cost);
- actuarial gains/losses relating to the period between one assessment and the next (Actuarial (profit)/loss).

Under the Projected Unit Credit Method, costs to incur in the year to make up the severance indemnity are determined according to the portion of benefits accrued in the same year. According to the accrued benefits method, the obligation towards the employee is determined on the basis of work already rendered at the date of assessment and on the basis of the salary earned at the date of termination of employment (only for companies with an average number of employees in 2006 of less than 50 units).

Specifically:

- Past Service Liability is the present value in demographical - financial terms of the benefits owed to the employee (severance payments) arising from seniority acquired;
- the Current Concern Provision is the value of the severance indemnity fund according to the Italian accounting rules at the valuation date;
- the Service Cost is the present value in demographical - financial terms of the benefits accrued by the worker only in the current period;
- the Net Interest Cost on net liability is the change in the year of the net value of liabilities due to the passing of time, and is equal to the product of the net liability of the plan determined at the beginning of the period and the discount rate, taking account of any change in the value of the liability (asset) during the year due to contributions or benefit payments;
- Actuarial (Gains)/Losses measure the change in liabilities during the year, generated by:
  - a deviation between the assumptions used in the calculation models and the actual dynamics of the magnitudes being verified;
  - changes in assumptions in the period under review.

In view also of the evolving nature of the economic fundamentals, the actuarial valuations were carried out in “dynamic” economic conditions; such an approach requires the formulation of economic and financial assumptions that can summarize in the medium-long term:

- the average annual changes in wages and inflation in line with the expectations on the general macroeconomic scenario;
- the trend of expected interest rates in the financial market.

With regard to the choice of the interest rate to use in the simulations, one should bear in mind that IAS 19, at point 83 and ensuing points, provides for the correspondence between rates used and the expiry of the amounts to be assessed. It should also be noted that, in the assessments, account was taken, according to statistics provided by the company, of the probability of:

- resignation;
- requests for severance indemnity advances.

Advances are regulated in accordance with art. 2120 of the Italian Civil Code.

Lastly, the assessments have assumed the annual tax of 17% on the revaluation of the provision for severance indemnity.

For the actuarial valuations of severance indemnity at 31st December 2017, the following assumptions were adopted:

ECONOMIC-FINANCIAL ASSUMPTIONS

1. Technical annual discounting rate 1.30%
2. Annual inflation rate 1.50%
3. Total annual salary increase rate 2.50%
4. Annual Severance Indemnity increase rate 2.63%

With regard to the discounting rate, the reference to measure the above parameter was the iBoxx Eurozone Corporates AA 10+ index with a duration calculated on the average residual permanence of the collective subject to assessment at 31st December 2017.

DEMOGRAPHIC ASSUMPTIONS

1. probability of death: determined by the General State Accounting Office denominated RG48, split up by gender;
2. probability of disability: split up by gender, adopted in the INPS model for 2010 projections. These probabilities were built starting from the distribution by age and gender of the pensions in force at 1st January 1987 effective from 1984, 1985, 1986 relevant to the staff of the credit line of business;
3. retirement age: for active employees, achievement of the first pensionable requirements valid for the Mandatory General Insurance was assumed;
4. probability of leaving employment for reasons other than death, annual frequency was considered as follows:
   - Aedes SIIQ S.p.A. 10.00%
   - Praga Res S.r.l. 3.00%
   - Soc. Agricola La Bollina S.r.l. 3.00%
5. for the probability of anticipation, a yearly value of 3.00% for all Group companies was assumed.

SENSITIVITY ANALYSIS

The sensitivity analysis, carried out in scenarios of upward or downward movement of the average annual discount rate of half a point, showed no significant changes from the booked liability.

Note 16. Provisions for risks and charges

The provisions for risks and charges are shown below:

(Euro/000)	31/12/2016	Increases	Decreases	Reclassifications	31/12/2017
Provision for contractual charges	738	0	(98)	(321)	319
Provision for contractual risks	205	0	(63)	(42)	100
Provision for tax-related risks	2,444	267	(159)	(207)	2,345
Provision for future charges	2,586	103	(280)	(104)	2,305
Total	**5,973**	**370**	**(600)**	**(674)**	**5,069**

The table below summarizes the changes:

(Euro/000)	
Balance at 31/12/2016	**5,973**
Provisions and net releases	(230)
Reclassifications	(674)
Balance at 31/12/2017	**5,069**

The figure on provisions for risks and charges is composed of:

- contractual charges: the item refers mainly to contractual charges from the sale of investments made in prior years; the increase is attributable to a dispute in progress in France, which received an unfavourable ruling at a first-level hearing, against which the company has filed an appeal;
- contractual risks: the item mainly includes the risks associated with disputes involving the Parent;
- tax risks: the balance mainly includes the estimate of probable liabilities for disputes involving Aedes and its subsidiaries;
- future charges; related mainly to liabilities set aside to cover the negative outcome of the arbitration concluded for the Fih S.a.g.l. award.

Details on the main disputes involving the Group, including those where the risk of losing the dispute is considered possible, but unlikely, are found in par. 2.13 in the Directors' Report on Operations.

Note 17. Tax payables

The breakdown of tax payables is shown below:

(Euro/000)	31/12/2017	31/12/2016
Payables to the Revenue Agency for VAT	0	95
Tax payables	731	1,359
Total current tax payables	**731**	**1,454**

(Euro/000)	31/12/2017	31/12/2016
Tax payables	0	221
Total non-current tax payables	**0**	**221**

The following table provides a break down of tax payables at 31st December 2017:

(Euro/000) Company	Tax	Tax year	Granting of instalment payment	Current portion	Non-current portion	31/12/2017
Aedes SIIQ S.p.A. (former Iupiter S.r.l.)	Irpeg	2004	28/04/2015	208	0	208
Aedes SIIQ S.p.A. (former PH Real Estate S.p.A.)	VAT irregularity Multipraga	2006	02/10/2017	14	0	14
Current tax payables through instalment				**222**	**0**	**222**
Bollina S.r.l.				32	0	32
Income tax payables accrued in the period				**32**	**0**	**32**
Payables to the Revenue Agency for other taxes				**477**	**0**	**477**
Total				**731**	**0**	**731**

Current tax payables amounted to Euro 731 thousand at 31st December 2017 versus Euro 1,675 thousand in the prior year, and refer mainly to:

- the judicial settlement agreement for an assessment notice for 2004 IRES received by Aedes (acquirer of Iupiter S.r.l., in turn acquirer of Piemongest S.p.A.). The Company has agreed to pay twelve quarterly instalments until 30th January 2018, including penalties; at 31st December 2017, the residual debt amounted to Euro 208 thousand.
- the assessment notice related to the penalties and collection fees regarding Multipraga VAT. On 2nd October 2017, by signing the declaration of accession to reduced settlement (art. 6 of Decree Law no. 193/2016 converted with amendments by Law no. 225/2016), the Company agreed on the tax collection settlement for the amount of Euro 71 thousand; at 31st December 2017, the residual debt amounted to Euro 14 thousand, with final payment falling due on 2nd July 2018.

Current tax payables also include the withholding tax on income from salaried work, self-employed work and kindred income amounting to Euro 477 thousand.

There were no overdue and unpaid taxes at 31st December 2017.

Note 18. Trade and other payables

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Payables to associates and other related parties	0	1,472
Other payables	434	621
	434	**2,093**
Current		
Deposits	0	77
Payables to suppliers	14,694	8,682
Payables to associates and other related parties	4,739	6,433
Payables to parent companies	47	0
Payables to social security and welfare institutions	258	222
Other payables	4,390	4,371
Accrued expenses and deferred income	85	409
Total	**24,213**	**20,194**

There were no overdue and unpaid taxes towards social security institutions and employees at 31st December 2017.

The book value of trade and other payables is deemed to approximate their fair value.

PAYABLES TO ASSOCIATES AND OTHER RELATED PARTIES

Non-current payables to associates related to the transfer of taxes on taxable income as part of fiscal transparency; in particular, the payable to Trixia S.r.l. of Euro 1,251 thousand was assumed by the Leopardi Fund and was subsequently offset during the year against other receivables as set out in the agreement concluded on December 2016.

The breakdown of current payables to associates is shown in Annex 2.

OTHER PAYABLES

The table below shows the breakdown of “Other payables”, divided into non-current and current:

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Security deposits/tenants’ interest	434	326
Other payables	0	295
Non-current payables to others	**434**	**621**
Current		
Confirmation deposits	157	0
Payables to employees for severance payments, bonuses, accrued leave and holidays	1,123	1,011
Other payables	3,110	3,360
Current payables to others	**4,390**	**4,371**

Other non-current payables refer mainly to guarantee deposits and payables to tenants for guarantees issued; at 31st December 2017, the balance amounts to Euro 434 thousand.

Other current payables, amounting to Euro 4,390 thousand versus Euro 4,371 thousand at 31st December 2016, mainly include commitments made and guarantees issued to trade counterparties, payables for contractual commitments undertaken with other unit holders of the Leopardi Fund (Euro 756 thousand), payables for fees to directors (Euro 1,357 thousand) and for fees to the Board of Statutory Auditors (Euro 69 thousand), in addition to bonuses allocated to Group employees and Directors.

At 31st December 2017, overdue payments amounted to Euro 544 thousand.

PAYABLES TO SUPPLIERS

Payables to suppliers increased versus the prior year due mainly to the consolidation of Retail Park One S.r.l., merged into Novipraga SIINQ S.p.A. during the year, in addition to the payables accrued from the Retail Park Phase C site, which became fully operational in the fourth quarter of 2017.

At year-end 2017, overdue payments amounted to Euro 2,003 thousand. Mention should be made, however, that no actions have been taken by creditors for the relevant recovery, as the creditors conduct business relations with the Company on an ongoing basis.

ACCRUED EXPENSES AND DEFERRED INCOME

The table below shows the breakdown of accrued expenses and deferred income:

(Euro/000)	31/12/2017	31/12/2016
Accrued expenses and deferred income		
Accrued expenses on property management	13	68
Deferred income on property management	47	92
Other accrued expenses	0	1
Other deferred income	25	248
Current accrued expenses and deferred income	**85**	**409**

Accrued expenses and deferred income amounted to Euro 85 thousand at 31st December 2017 versus Euro 409 thousand at 31st December 2016; the decrease is attributable mainly to the deconsolidation of Golf Club Castello Tolcinasco S.r.l. following disposal of the investment.

INCOME STATEMENT

Note 19. Revenue from sales and services

(Euro/000)	31/12/2017	31/12/2016
Property leases	19,278	16,411
Sale of properties classified under current assets	4,802	745
Sale of other non-real estate inventory	2,857	2,236
Net income from disposal of properties and trade licences (gains)	752	0
Provision of services	232	110
Project and Construction Management revenue	10,959	23,157
Total	**38,880**	**42,659**

“Property leases” amounted to Euro 19,278 thousand, up versus Euro 16,411 thousand in the prior year, due to the expansion of the property assets intended for lease.

“Sale of properties classified as current assets”, amounting to Euro 4,802 thousand, includes the proceeds from the disposal of the following property units:

- Euro 3,750 thousand from the apartment located in Bv. Croisette, Cannes, held by the subsidiary Pragafrance S.ar.l.;
- Euro 1,052 thousand from the portions of the property units located in Via Pompeo Leoni/Via De Angeli, Milan, held by the subsidiary Pragaotto S.r.l.;

“Sale of other non-real estate inventory”, amounting to Euro 2,857 thousand, includes wine sales by the subsidiaries Società Agricola La Bollina S.r.l. and Bollina S.r.l..

“Net revenue from disposal of properties and business licences,” amounting to Euro 752 thousand at 31st December 2017, nil at 31st December 2016, includes the gain from the following disposals made in the year:

- Euro 495 thousand from the sale of Lotto 10B in Serravalle;
- Euro 97 thousand from the sale of a portion of the building located in Agrate Brianza owned by the Petrarca Fund;
- Euro 90 thousand from the sale of the property located in Bassano del Grappa;
- Euro 70 thousand from the sale of a portion of the property located in Feroleto Antico.

“Provision of services”, amounting to Euro 232 thousand, includes the amounts from the provision of property services in the areas of asset management and financial and administrative services, general services, EDP and human resources provided by Aedes SIIQ S.p.A. mainly to associates, the details of which are found in Annex 2.

It should be noted that to provide greater clarity in reporting and to isolate the effects of the Project and Construction Management activities, revenue from Project Management activities was reclassified to "Project and Construction Management" revenue. At 31st December 2016, this revenue, which amounted to Euro 670 thousand, was included in the item "Provision of services".

Project and Construction Management revenue amounted to Euro 10,959 thousand and, as previously highlighted, includes revenue generated by Praga Res S.r.l., the company dedicated to Project and Construction Management activities. The significant change is attributable to the completion of the development work of Phases 5 and 6 of the Serravalle Outlet Village.

Note 20. Other revenue

The item is composed as follows:

(Euro/000)	31/12/2017	31/12/2016
Gains from sale of investments	200	0
Other revenue and income	1,120	2,680
Total	**1,320**	**2,680**

"Gains from the disposal of equity investments" amounted to Euro 200 thousand at 31st December 2017, nil at 31st December 2016, and includes the gain from the disposal, on 28th November 2017, of the investment in Roma Development S.r.l. and of the financial receivable due from the company. The investment was classified under "Available-for-sale financial assets".

"Other revenue and income" is broken down as follows:

(Euro/000)	31/12/2017	31/12/2016
Other income		
Income from other sales	22	3
Sundry income	1,066	2,580
Other non-property chargebacks	32	97
Total	**1,120**	**2,680**

"Other revenue and income", amounting to Euro 1,120 thousand at 31st December 2017 versus Euro 2,680 thousand at 31st December 2016, mainly includes insurance premiums from Praga Res S.r.l. for Euro 221 thousand, income from the chargeback of personnel expense for Euro 189 thousand, and income from the write-off of other payables for Euro 295 thousand.
The balance at 31st December 2016 is mainly attributable to chargebacks to associates and contingent assets from the write-off of payables no longer due.

Note 21. Change in inventory

The item is composed as follows:

(Euro/000)	31/12/2017	31/12/2016
Capitalized costs for purchases on stock	2,024	1,274
Cost of sales	(6,360)	(1,939)
(Write-down)/Reversal of inventory	(1,836)	(771)
Total	**(6,172)**	**(1,436)**

Capitalized costs for purchases on stock refer mainly to the costs incurred for purchasing the materials required in the wine-making business of the subsidiary Società Agricola La Bollina S.r.l., and to the wholesale trade of alcoholic beverages carried out by the subsidiary Bollina S.r.l..
The cost of sales amounted to Euro 6,360 thousand and is attributable mainly to the following activities:

- Euro 3,707 thousand from the disposal of the apartment located in Bv. Croisette, Cannes, held by the subsidiary Pragafrance S.ar.l.;
- Euro 970 thousand from the disposal of the portions of the property units located in Via Pompeo Leoni/Via De Angeli, Milan, held by the subsidiary Pragaotto S.r.l.;
- Euro 1,683 thousand from the sale of non-real estate inventory related to the wine-making business and wholesale trade of alcoholic beverages.

Note 22. Costs for raw materials and services

(Euro/000)	31/12/2017	31/12/2016
Costs for purchase of raw materials and other goods	2,404	1,462
Costs for services on owned properties	3,543	1,650
Project and Construction Management costs	9,648	22,320
Other costs for services	9,790	10,012
Total	**25,385**	**35,444**

The table below shows the breakdown of the costs for raw materials and services, split up by type of expense:

(Euro/000)	31/12/2017	31/12/2016
Other general costs	43	64
Costs for purchases of wine-making materials	1,660	1,202
Capitalized costs for purchase of materials on stock	0	14
Property management costs	701	182
Sub total a) Costs for raw materials and other assets	**2,404**	**1,462**
Property cleaning	106	29
Maintenance	488	160
Insurance	82	86
Service charges	840	508
Other	1,663	809
Capitalized costs for services on stock	364	58
Subtotal b) Costs for services on owned properties	**3,543**	**1,650**
Subtotal c) Project and Construction Management costs	**9,648**	**22,320**
Sales fees	**485**	**458**
Fees to Directors	2,378	2,310
Fees to Board of Statutory Auditors	244	250
Professional services	4,063	4,068
Commissions and bank charges	318	439
Travel expenses and conferences	209	185
Cleaning, telephone and maintenance	489	493
Energy	120	143
Advertising costs	205	62
Sundry	470	502
General expenses	**8,496**	**8,452**
Rental charges	401	730
Lease rent	408	372
Use of third-party assets	**809**	**1,102**
Subtotal d) Other costs for services	**9,790**	**10,012**
Total	**25,385**	**35,444**

COSTS RELATING TO OWNED PROPERTIES

"Costs for raw materials" includes mainly costs for the wine-making business capitalized under inventory, as well as property management costs. At 31st December 2017, the cost of materials amounted to Euro 2,404 thousand versus Euro 1,462 thousand at 31st December 2016. The increase in the cost of materials is attributable to higher management costs resulting from the increase in the number of property assets.

"Costs relating to owned properties", amounting to Euro 3,543 thousand at 31st December 2017 versus Euro 1,650 thousand at 31st December 2016, increased versus the prior year due mainly to the growth in property assets. "Other", amounting to Euro 1,663 thousand, increased versus 31st December 2016 and mainly includes the TARI, TASI, and other local taxes, contract registration fees, and supervisory and surveillance costs.

"Project and Construction Management costs", amounting to Euro 9,648 thousand at 31st December 2017 versus Euro 22,320 thousand at 31st December 2016, refers to costs incurred by Praga Res S.r.l. in the context of contracts developed on behalf of associates or entities outside the Group. The significant change is attributable to the completion of the development work of Phases 5 and 6 of the Serravalle Outlet Village; the change should be read together with the change in revenue from the same activity. It should be noted that, as previously mentioned for

“Revenue from sales and services”, in order to provide greater clarity in reporting and to isolate the effects of the Project and Construction Management activities, the costs from Project Management activities were reclassified to “Project and Construction Management” costs. At 31st December 2016, these costs were included in “Other”.

“Other costs for services” amounted to Euro 9,790 thousand versus Euro 10,012 thousand at 31st December 2016, composed as follows:

- “Sales fees”: amounting to Euro 485 thousand, with no significant change reported from the prior year;
- “General expenses”: amounting to Euro 8,496 thousand at 31st December 2017, in line with the figure reported at 31st December 2016. The item includes fees to directors and bonuses for 2017. “Advertising costs” increased due mainly to the promotion and sponsoring of the Caselle project;
- “Costs for the use of third-party assets”: amounting to Euro 809 thousand versus Euro 1,102 thousand at 31st December 2016, includes the lease payments for the headquarters in Via Moribondo, as well as the lease payments for cars provided to employees and/or operational Directors, and fees for the provision of IT and telephone equipment.

Note 23. Personnel expense

(Euro/000)	31/12/2017	31/12/2016
Wages and salaries	4,358	3,956
Social charges	1,186	1,080
Severance indemnity	273	241
Other personnel expense	103	73
Total	**5,920**	**5,350**

The increase in personnel expense stems from the higher costs for the development of the organizational structure from the second half of 2016, as a result of the expansion of the revenue portfolio and the pipeline for the development of rented assets.

The average number of employees divided by category is as follows.

The average number of employees including employees of the Golf Club Castello di Tolcinasco (sold during the year) in the comparative figures, is as follows:

(Average number)	31/12/2017	31/12/2016
Description		
Executives	8	8
Managers	28	29
Employees	19	20
Workers/Porters	4	8
Total	**59**	**65**

As explained in Note 29, the result of the company up to the disposal date and the effects of the disposal have been classified under “Gains/(Losses) after tax from assets and liabilities held for sale”. For comparative purposes, the corresponding result of the prior period has also been classified under the item.

Therefore, the average number of employees excluding the employees of the Golf Club Castello di Tolcinasco from the comparative figures is as follows:

(Average number)	31/12/2017	31/12/2016
Description		
Executives	8	8
Managers	28	27
Employees	19	17
Workers/Porters	4	4
Total	**59**	**56**

Note 24. Other operating costs

(Euro/000)	31/12/2017	31/12/2016
IMU	3,035	2,500
General company charges	472	271
Shareholders' Meetings, financial statements, Consob obligations, Stock Exchange	138	157
Other minor charges	59	135
Sundry charges	69	9
Total	**3,773**	**3,072**

"IMU", an Italian municipal tax, amounting to Euro 3,035 thousand, increased versus Euro 2,500 thousand in the prior year, due mainly to taxes accrued on properties acquired in the year, in addition to taxes related to the property in Via Veneziani, part of the Group's consolidation scope from the third quarter of 2016.
"General corporate charges" includes sponsorship costs and entertainment and business expenses, membership fees, subscriptions, as well as TARI for the company headquarters; this item increased by Euro 201 thousand versus the prior year due mainly to losses on trade receivables of Euro 171 thousand (nil in 2016).

Note 25. Amortization/depreciation, fair value adjustments, impairment losses and provisions

(Euro/000)	31/12/2017	31/12/2016
Amortization of intangible fixed assets	36	28
Depreciation of tangible fixed assets:		
specific plant	12	19
equipment	419	394
other assets	131	171
Total depreciation of fixed tangible assets	562	584
Impairment of tangible fixed assets:		
other assets	0	64
Amortization, depreciation and impairment losses	**598**	**676**
Fair value adjustment of investment property	**(20,874)**	**(29,773)**
Write-downs of shareholder loans to associates	0	178
Write-down of receivables under current assets	170	14
Write-down/(Reversal) of receivables from associates under current assets	(761)	0
Write-down of other receivables under current assets	392	0
Allocation/(Release) of provisions for risks	(351)	1,602
Write-downs and allocations	**(550)**	**1,794**
Total	**(20,826)**	**(27,303)**

"Amortization and depreciation" did not change significantly versus the prior year.

Comments on the "Fair value adjustment of investment property", amounting to a positive Euro 20,874 thousand, are found in Note 1 - Investment property.

Impairment losses and provisions, amounting to a positive Euro 550 thousand, include:

- Euro 761 thousand from the reversal of receivables from associates made to align the value of the receivables with their presumed realizable value;
- Euro 351 thousand from the net release of the provisions for risks and charges. The balance at 31st December 2016 mainly included the allocation related to the Fih S.a.g.l. arbitration award, for which the Arbitration Board had awarded damages of Euro 2,093 thousand;
- Euro 392 thousand from the write-downs of other receivables under current assets made to align the value of the receivables with their presumed realizable value;
- Euro 170 thousand from the write-downs of receivables under current assets made to align the value of the receivables with their presumed realizable value.

Note 26. Share of the result of companies measured at equity

(Euro/000)	31/12/2017	31/12/2016
Gains on investments measured at equity	1,151	5,789
Losses from investments measured at equity	(3,840)	(2,780)
Total revaluations/write-downs of investments measured at equity	**(2,689)**	**3,009**
Other charges and income from investments measured at equity	**(756)**	**0**
Total	**(3,445)**	**3,009**

Revaluations/Write-downs of investments measured at equity consists of the measurement at equity of associates, as stated in Note 4. "Other charges and income" includes charges arising from contractual commitments undertaken with other unit holders of the Leopardi Fund for Euro 756 thousand.

Note 27. Net financial Income/(Charges)

The table below shows the breakdown of financial charges and income:

(Euro/000)	31/12/2017	31/12/2016
Income		
Interest on bank accounts	4	92
Interest on loans to associates	605	839
Mark-to-market of derivative instruments	137	0
Other interest income	194	6
	940	**937**
Charges		
Interest on bank accounts	391	313
Interest on bank loans	4,705	3,124
Interest on non-bank loans	0	287
Interest on loans from minorities	60	50
Interest on loans from associates and other related parties	279	0
Interest on loans from parents	344	0
Mark-to-market of derivative instruments	0	507
Interest expense on other payables	1,321	244
Capitalized interest on inventory	0	0
	7,100	**4,525**
Total	**(6,160)**	**(3,588)**

Net financial charges amounted to Euro 6,160 thousand Euro, increasing versus 3,588 thousand Euro in the prior year, which consist mainly of:

- financial income: amounting to Euro 940 thousand, with no significant change versus 31st December 2016;
- financial charges: amounting to Euro 7,100 thousand, increasing versus Euro 4,525 thousand at 31st December 2016, due mainly to the new bank loans concluded by Group companies, in addition to the bond entered into by Aedes SIIQ S.p.A. with institutional investors, and the loan granted by the Parent Company Augusto S.p.A..

Note 28. Taxes

(Euro/000)	31/12/2017	31/12/2016
Current taxes	(287)	(95)
Prepaid/(Deferred) tax	(133)	3,166
Total	**(420)**	**3,071**

Here below is the breakdown of taxes for the year:

(Euro/000)	31/12/2017	31/12/2016
Current taxes		
IRES	(104)	(56)
Income/(Charges) from tax consolidation scheme	61	(266)
	(43)	**(322)**
IRAP	**(19)**	**(14)**
Prior-years' taxes	**(225)**	**241**
Prepaid/(Deferred) taxes	**(133)**	**3,166**
	(420)	**3,071**

In 2017, current taxes for the Group amounted to Euro 287 thousand versus Euro 95 thousand in the prior year, composed as follows:

- Euro 104 thousand from net IRES, arising mainly from tax calculated by Group companies that are out of the tax consolidation scheme;
- Euro 61 thousand from tax consolidation-related income, deriving mainly from the taxable elements in tax consolidation of a number of Group companies;
- Euro 19 thousand from IRAP of Group companies;
- Euro 225 thousand from prior years' taxes referring mainly to:
  - Euro 400 thousand attributable to Aedes SIIQ S.p.A. relating to the allocation made for the adjustment of the provision for tax risks;
  - Euro 175 thousand from the income gained by Aedes SIIQ S.p.A., agreeing in the year to the reduced settlement (art. 6 of Decree Law no. 193/2016 converted with amendments by Law no. 225/2016) of tax disputes;
  - Euro 117 thousand from the income related to Praga Res S.p.A. from the reduced settlement (art. 6 of Decree Law no. 193/2016 converted with amendments by Law no. 225/2016) of tax disputes.

The Group also has Euro 133 thousand in net deferred taxes versus Euro 3,166 thousand in net prepaid taxes in the prior year, generated mainly by:

i. the allocation of deferred tax arising from temporary unrealized misalignment between the book value and the tax value of property assets;
ii. the allocation of deferred tax assets on loss carryforwards up to the 80% limit of deferred taxes (IRES) as per the above;
iii. the allocation of deferred tax assets on loss carryforwards up to the 80% limit of deferred taxes (IRES) implicitly considered in the carrying amount of the investment in the joint venture participating in the tax consolidation scheme of the parent Aedes SIIQ S.p.A..

Note 29. Gains/(Losses) after taxes from assets and liabilities held for sale

On 16th June 2017, a deed was concluded for the disposal of the interests of the subsidiary Golf Club Castello Tolcinasco SSD S.r.l., previously classified as "discontinued operation" from the first quarter of 2017. The result of the company up to the disposal date and the effects of the disposal have been classified under "Gains/(Losses) after tax from assets and liabilities held for sale". For comparative purposes, the corresponding result of the prior period has also been classified under the item.

The table below shows the breakdown of the item at 31st December 2017:

(Euro/000)	31/12/2017
Commitments towards the purchaser of the investment Golf Club Tolcinasco SSD S.r.l.	(250)
Loss from disposal of the investment Golf Club Tolcinasco SSD S.r.l.	(125)
Gains/(Losses) after taxes from assets held for sale	**(375)**

Under the disposal agreement, Aedes SIIQ S.p.A. undertook to hold the buyer harmless from the loss actually incurred in each quarter of 2017, amounting to Euro 250 thousand.
The realizable value from the sale of the company's shares amounted to Euro 10 thousand and generated a loss of Euro 125 thousand.

The corresponding entry at 31st December 2016, reclassified for comparative purposes, is as follows:

(Euro/000)	Aedes Real Estate SGR S.p.A.	Golf Club Castello di Tolcinasco SSD S.r.l.	31/12/2016
Income statement			
Revenue from sales and services	2,277	2,130	4,407
Other revenue	20	102	122
Costs for raw materials and services	(796)	(2,467)	(3,263)
Personnel expense	(824)	(346)	(1,170)
Other operating costs	(35)	(56)	(91)
EBITDA	**642**	**(637)**	**5**
Amortization and depreciation	(3)	(7)	(10)
EBIT	**639**	**(644)**	**(5)**
Net financial income (Charges)	530	(5)	525
Profit before taxes	**1,169**	**(649)**	**520**
Taxes	195	(5)	190
Gains/(Losses) after taxes from assets held for sale	**1,364**	**(654)**	**710**
Release of fair value measurement reserve	516		516
Loss from disposal	(844)		(844)
Gains/(Losses) after taxes from assets held for sale	**1,036**	**(654)**	**382**

Note 30. Earnings per share

	31/12/2017	31/12/2016
Comprehensive income attributable to the ordinary Shareholders (Euro thousands)	9,764	28,512
Weighted average of outstanding shares during the year	316,743,958	316,773,018
Basic earnings/(Loss) per share (Euro)	**0.03**	**0.09**

Since the outstanding warrants would have an antidilutive effect, diluted earnings/(loss) per share were not calculated.

Note 31. Commitments

COMMITMENTS ARISING FROM 2014 RESTRUCTURING AGREEMENTS

Under the Restructuring Agreement concluded by Aedes with a number of lenders in 2014, Natixis S.A. Banca Popolare di Vicenza S.C.p.A., and Banca Mediocredito del Friuli Venezia Giulia S.p.A. have acquired the right to sell (put option) to Aedes, which has the obligation to buy part or all of the Leopardi Fund units assigned to these banks under the above Restructuring Agreement.

The agreement concluded with Natixis S.A. provides, *inter alia*, the possibility for Natixis, subject to the disposal of a property contributed to the Leopardi Fund, of transferring to Aedes the units held in the Leopardi Fund, at a discount versus the face value.

The agreements concluded with Banca Popolare di Vicenza S.C.p.A., and Banca Mediocredito del Friuli Venezia Giulia S.p.A., instead, provide the possibility for these lenders, subject to the disposal on the market of Aedes shares owned by the above lenders, arising from Banks Increase, of selling to Aedes the units held in the Leopardi Fund, at a discount versus the face value.

With regard to the above Restructuring Agreement concluded by Aedes with Banco Popolare Società Cooperativa, Aedes has provided a number of representations and guarantees respectively in favour of Banco Popolare Società Cooperativa and Release S.p.A. (undertaking the corresponding indemnification obligations), in relation to the investments and properties subject to disposal to such companies.

Lastly, it should be noted that, under the agreements concluded on 23rd December 2014 on the start-up of the Leopardi Fund, Aedes Real Estate SGR S.p.A. (merged into Sator Immobiliare SGR S.p.A.), in name and on behalf of the Leopardi Fund, has undertaken, with regard to a number of counter-guarantees issued by Aedes in the interest of Rubattino 87 S.r.l. and Galileo Ferraris 160 S.r.l. to secure the recourse claim from, respectively, Generali S.p.A., Atradius Credit Insurance N.V., Reale Mutua Assicurazioni S.p.A., Meliorbanca S.p.A. and Unicredit S.p.A., relating to the sureties issued by the same, to indemnify Aedes from any liability arising from or related to the above commitments.

BANK SECURITIES ISSUED BY THIRD PARTIES IN THE INTEREST OF GROUP COMPANIES

The item mainly includes:

- Euro 172 thousand for a bank guarantee issued by Veneto Banca S.p.A. under compulsory administrative liquidation in favour of C4 Investment fund in the interest of Aedes to guarantee the provisions of the lease contract;

- Euro 377 thousand for a bank guarantee issued by Banca Popolare di Milano in favour of Carrefour Property Italia S.r.l. in the interest of Praga Res S.r.l., to guarantee 50% of the deduction for the final testing of the First Phase Works of the shopping complex located in Nichelino;
- Euro 694 thousand for a bank guarantee issued by Banca Popolare di Milano in favour of Pragasei S.r.l. in the interest of Praga Res S.r.l., to guarantee the proper performance of the obligations arising from the contract for the design and construction of the shopping center named "Serravalle Luxury Outlet (PHASE 6)";
- Euro 741 thousand for a bank guarantee issued by Banca Popolare di Milano in favour of Pragasei S.r.l. in the interest of Praga Res S.r.l., as a substituting guarantee of the guarantee withholdings related to the contract for the design and construction of the shopping center named "Serravalle Luxury Outlet (PHASE 6)";
- Euro 175 thousand for a bank guarantee issued by Banca Popolare di Milano in favour of Serravalle Outlet Mall S.r.l. in the interest of Praga Res S.r.l., to guarantee the proper performance of the obligations arising from the contract for the expansion of the shopping center named "Serravalle Luxury Outlet (PHASE 5)";
- Euro 223 thousand for a bank guarantee issued by Banca Popolare di Milano in favour of Serravalle Outlet Mall S.r.l. in the interest of Praga Res S.r.l., as a substituting guarantee of the guarantee withholdings related to the contract for the expansion construction of the shopping center named "Serravalle Luxury Outlet (PHASE 5)";
- Euro 200 thousand for a bank guarantee issued by ING Bank NV in favour of Rete Ferroviaria Italiana S.p.A. in the interest of Novipraga SIINQ S.p.A., as a guarantee for the topographic monitoring activities of the structures during the underground crossing phase of the tunnel excavations.

INSURANCE SURETIES ISSUED BY THIRD PARTIES IN THE INTEREST OF GROUP COMPANIES

The item mainly includes:

- Euro 2,031 thousand for an insurance surety issued by Reale Mutua di Assicurazioni in favour of the Municipality of Serravalle Scrivia in the interest of Aedes, to guarantee the infrastructure work under the Agreement;
- Euro 90 thousand for an insurance surety issued by Elba Assicurazione S.p.A. in favour of the Municipality of Serravalle Scrivia in the interest of Cascina Praga SIINQ S.p.A., now Aedes, as a guarantee of the infrastructure work on the road section of Lot 10 B;
- Euro 266 thousand for an insurance surety issued by Atradius Credit Insurance N.V. in favour of the Municipality of Novi Ligure in the interest of Novipraga SIINQ S.p.A., as a guarantee of the provisions of the town-planning agreement signed on 24th September 2015 and recorded in Alessandria on 9th October 2015 N. 9949 - Series 1 T;
- Euro 917 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Novi Ligure in the interest of Novipraga SIINQ S.p.A., as a guarantee of the provisions under the town-planning agreement for the payment of infrastructure charges;
- Euro 93 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Novi Ligure in the interest of Novipraga SIINQ S.p.A., as a guarantee of the provisions under the town-planning agreement for the payment of infrastructure charges;
- Euro 313 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Novi Ligure in the interest of Novipraga SIINQ S.p.A., as a guarantee of the provisions under the town-planning agreement for the payment of infrastructure charges;
- Euro 1,302 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Novi Ligure in the interest of Novipraga SIINQ S.p.A., as a guarantee of the provisions under the town-planning agreement for the performance of infrastructure work;
- Euro 510 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Novi Ligure in the interest of Novipraga SIINQ S.p.A., as a guarantee of the provisions under the town-planning agreement for the performance of the sewers;
- Euro 103 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Novi Ligure in the interest of Novipraga SIINQ S.p.A., as a guarantee of the provisions under the town-planning agreement for the performance of the new Cascine Bellotta road;
- Euro 46 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Serravalle Scrivia in the interest of Novipraga SIINQ S.p.A., to guarantee payment of the construction fee;
- Euro 141 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Serravalle Scrivia in the interest of Novipraga SIINQ S.p.A., as a guarantee of the provisions under the town-planning agreement for the performance of infrastructure workv
- Euro 466 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of Pragaotto S.r.l., as a guarantee of the infrastructure work on PEC (Agreed Executive Plan) Road Services;

- Euro 135 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of Pragaotto S.r.l., as a guarantee of the infrastructure work on the roundabout;
- Euro 130 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of Pragaotto S.r.l., as a guarantee of the infrastructure work on internal road services;
- Euro 124 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of Pragaotto S.r.l., as a guarantee of the infrastructure work on Strada Gorreto;
- Euro 111 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of Pragaotto S.r.l., as a guarantee of the infrastructure work on Standard PV2;
- Euro 207 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of Pragaotto S.r.l., as a guarantee of the infrastructure work on Standard PV1;
- Euro 10,827 thousand for an insurance surety issued by Reale Mutua di Assicurazioni in favour of the Municipality of Caselle Torinese (TO) in the interest of Novipraga SIINQ S.p.A., to guarantee the obligations undertaken for the completion of the infrastructure work on S.P.2 LOT 1;
- Euro 2,007 thousand for an insurance surety issued by Reale Mutua di Assicurazioni in favour of the Municipality of Caselle Torinese (TO) in the interest of Novipraga SIINQ S.p.A., to guarantee the obligations undertaken for the completion of the infrastructure work on the S.P.13 New Stretch;
- Euro 498 thousand for an insurance surety issued by Reale Mutua di Assicurazioni in favour of the Municipality of Caselle Torinese (TO) in the interest of Novipraga SIINQ S.p.A., to guarantee the obligations undertaken for the completion of the infrastructure work on the New Stretch between S.P. 2 and Strada CIRIE';
- Euro 3,164 thousand for an insurance surety issued by Reale Mutua di Assicurazioni in favour of the Municipality of Caselle Torinese (TO) in the interest of Novipraga SIINQ S.p.A., to guarantee the obligations undertaken for the completion of the infrastructure work on the upgrading of S.P. 2 LOT 2;
- Euro 50 thousand for an insurance surety issued by Lloyd Italico S.p.A. in favour of Agea-Rome in the interest of Società Agricola La Bollina S.r.l., to guarantee the contribution requested for the relocation of its vineyards.

GUARANTEES ISSUED BY THE GROUP IN FAVOUR OF THIRD PARTIES

Mention should also be made that Aedes has issued:

- Euro 40,648 thousand for an autonomous guarantee on first demand issued in favour of Crédit Agricole Corporate and Investment Bank in the interest of the associate Pragasei S.r.l., as a guarantee of the loan granted to the latter. It should additionally be noted that Serravalle Outlet Mall Investment S.à.r.l., holding 49.9%, has issued an identical guarantee;
- Euro 406 thousand for the insurance surety issued in favour of the Revenue Agency in the interest of Pival S.r.l. with regard to VAT receivables claimed as refund;
- Euro 131 thousand for an insurance surety issued in favour of the Revenue Agency in the interest of Aedificandi S.r.l. (discontinued company), with regard to 50% of VAT receivables claimed as refund.

GUARANTEES ON ASSETS OWNED BY THE GROUP

A pledge has been granted to the lenders over the shares held in Pragasei S.r.l..

COMMITMENTS TOWARDS THIRD PARTIES

- Euro 20.9 million for the remaining financial commitment on the San Marino - The Market transaction;
- Euro 6,688 thousand for the commitment undertaken by Aedes for any extra costs in the construction of the shopping center named "Serravalle Luxury Outlet (PHASE 6)" owned by Pragasei S.r.l.. It should additionally be noted that Serravalle Outlet Mall Investment Sarl, holding 49.9% in Pragasei S.r.l., has issued a similar commitment).
- Euro 632 thousand for the commitment undertaken by Aedes in favour of the Municipality of Santa Vittoria d'Alba (CN) for infrastructure work on PEC (Agreed Executive Plan) standard areas, Lot C.

It should be noted that, in respect of the sum of all the undertakings set out in this Note 31, the Group has made provisions for risks where deemed necessary.

Note 32. Segment reporting

In order to present the new business model, the Business Units (the "BU") are shown by segment.
Shown below are the consolidated income statement and the consolidated statement of financial position by segment.

INCOME STATEMENT AT 31ST DECEMBER 2017

(Euro/000)	Investment & Asset Management	Investment & Development Management	Holding	Property assets	Non-property assets	31/12/2017
Gross rental revenue	17,214	173	0	17,387	0	17,387
Income from sale of properties	383	495	0	878	0	878
Income from sale of non-real estate inventory	0	0	0	0	1,174	1,174
Margin from sale of investments	0	0	200	200	(2)	198
Margin from Construction and Project Management services	0	(321)	0	(321)	0	(321)
Revenue from non-core services	0	0	0	0	0	0
Sundry revenue	560	584	16	1,160	140	1,300
Total revenue	**18,157**	**931**	**216**	**19,304**	**1,312**	**20,616**
Total direct external costs	**(6,990)**	**378**	**(38)**	**(6,650)**	**(376)**	**(7,026)**
Net Operating Income	**11,167**	**1,309**	**178**	**12,654**	**936**	**13,590**
Direct personnel expense	(209)	(2,336)	0	(2,545)	(222)	(2,767)
Internal direct capitalized costs on properties	17	1,539	0	1,556	0	1,556
Total direct costs	**(192)**	**(797)**	**0**	**(989)**	**(222)**	**(1,211)**
HQ personnel expense	0	0	(3,153)	(3,153)	0	(3,153)
Consultancy	(3)	(9)	(2,711)	(2,723)	(187)	(2,910)
G&A	(314)	(284)	(4,689)	(5,287)	(244)	(5,531)
Internal capitalized costs on non-real estate inventory	0	0	0	0	1	1
Total general expenses	**(317)**	**(293)**	**(10,553)**	**(11,163)**	**(430)**	**(11,593)**
EBITDA	**10,658**	**219**	**(10,375)**	**502**	**284**	**786**
Value adjustment of properties	17,738	1,300	0	19,038	0	19,038
Amortization, depreciation, provisions and impairment losses (excluding investments)	(96)	0	113	17	(65)	(48)
Income/(Loss) on investments	(3,445)	0	0	(3,445)	0	(3,445)
EBIT (Operating profit)	**24,855**	**1,519**	**(10,262)**	**16,112**	**219**	**16,331**
Financial income/(Charges)	(5,001)	(110)	(988)	(6,099)	(61)	(6,160)
EBT (Profit before taxes)	**19,854**	**1,409**	**(11,250)**	**10,013**	**158**	**10,171**
Taxes/Tax charges	(102)	63	(257)	(296)	(124)	(420)
Profit/(Loss) from continuing operations	**19,752**	**1,472**	**(11,507)**	**9,717**	**34**	**9,751**
Profit/Loss after taxes on non-current assets intended for sale	0	0	0	0	(375)	(375)
Profit/(Loss)	**19,752**	**1,472**	**(11,507)**	**9,717**	**(341)**	**9,376**

The table below shows the reconciliation between revenue and costs shown in the tables by segment with the figures shown in the financial statements.

(Euro/000)	31/12/2017
Total revenue stated in the Report	**20,616**
Revenue from chargebacks to tenants	1,937
Construction Management costs	11,158
Project Management costs	130
Cost of sales from property and non-real estate inventory	6,359
Total revenue from sales and other revenue stated in the financial statements	**40,200**

(Euro/000)	31/12/2017
Total costs stated in the Report	**(19,830)**
Revenue from chargebacks to tenants	(1,936)
Construction Management costs	(11,158)
Project Management costs	(130)
Capitalized costs for purchases on stock	(2,024)
Total costs stated in the financial statements	**(35,078)**

Revenue from chargebacks to tenants is shown in the Directors' Report on Operations as a reduction of "Net losses from vacancies", whereas in the notes to the consolidated financial statements it is shown under "Revenue from sales and services".
Regarding Project and Construction Management costs, it should be noted that the Directors' Report on Operations shows revenue net of direct costs, while in the notes, the costs are shown under "Costs for raw materials and services".

Regarding the cost of inventory sold, it should be noted that the Directors' Report on Operations shows revenue net of the cost of sales, while in the notes, the costs are shown under "Change in inventory".

INCOME STATEMENT AT 31ST DECEMBER 2016

(Euro/000)	Investment & Asset Management	Investment & Development Management	Holding	Property assets	Non-property assets	31/12/2016
Gross rental revenue	14,995	53	71	15,119	1	15,120
Income from sale of properties	(87)	0	0	(87)	0	(87)
Income from sale of non-real estate inventory	0	0	0	0	1,129	1,129
Margin from sale of investments	0	0	0	0	(3)	(3)
Margin from Construction and Project Management services	0	488	0	488	0	488
Revenue from non-core services	0	0	0	0	0	0
Sundry revenue	195	340	2,118	2,653	103	2,756
Total revenue	**15,103**	**881**	**2,189**	**18,173**	**1,230**	**19,403**
Total direct external costs	**(4,638)**	**(438)**	**0**	**(5,076)**	**(338)**	**(5,414)**
Net Operating Income	**10,465**	**443**	**2,189**	**13,097**	**892**	**13,989**
Direct personnel expense	(150)	(1,756)	0	(1,906)	(270)	(2,176)
Internal direct capitalized costs on properties	8	1,051	0	1,059	0	1,059
Total direct costs	**(142)**	**(705)**	**0**	**(847)**	**(270)**	**(1,117)**
HQ personnel expense	0	0	(3,174)	(3,174)	0	(3,174)
Consultancy	0	0	(2,951)	(2,951)	(201)	(3,152)
G&A	0	0	(5,415)	(5,415)	(344)	(5,759)
Internal capitalized costs on non-real estate inventory	0	0	21	21	0	21
Total general expenses	**0**	**0**	**(11,519)**	**(11,519)**	**(545)**	**(12,064)**
EBITDA	**10,323**	**(262)**	**(9,330)**	**731**	**77**	**808**
Value adjustment of properties	35,233	(6,231)	0	29,002	0	29,002
Amortization, depreciation, provisions and impairment losses (excluding investments)	(80)	(317)	(2,204)	(2,601)	131	(2,470)
Income/(Loss) on investments	(1,547)	4,556	0	3,009	0	3,009
EBIT (Operating profit)	**43,929**	**(2,254)**	**(11,534)**	**30,141**	**208**	**30,349**
Financial income/(Charges)	(2,235)	(1,042)	(249)	(3,526)	(62)	(3,588)
EBT (Profit before taxes)	**41,694**	**(3,296)**	**(11,783)**	**26,615**	**146**	**26,761**
Taxes/Tax charges	(19)	(2)	3,162	3,141	(70)	3,071
Profit/(Loss) from continuing operations	**41,675**	**(3,298)**	**(8,621)**	**29,756**	**76**	**29,832**
Profit/Loss after taxes on non-current assets intended for sale	0	0	0	0	382	382
Profit/(Loss)	**41,675**	**(3,298)**	**(8,621)**	**29,756**	**458**	**30,214**

STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER 2017

(Euro/000)	Investment & Asset Management	Investment & Development Management	Holding	Property assets	Non-property assets	31/12/2017
Investment property and inventory	327,086	150,919	0	478,005	2,276	480,281
Investments and real-estate funds	37,234	3,020	0	40,254	0	40,254
Financial receivables	0	0	12,921	12,921	0	12,921
Other fixed assets	0	0	2,332	2,332	11	2,343
Deferred tax assets	0	0	6,420	6,420	(390)	6,030
Trade and other receivables	0	0	16,397	16,397	437	16,834
Tax receivables	0	0	5,279	5,279	115	5,394
Cash and cash equivalents and treasury shares	0	0	23,081	23,081	160	23,241
Total assets	**364,320**	**153,939**	**66,430**	**584,689**	**2,609**	**587,298**
Payables to banks	149,421	30,180	2,845	182,446	806	183,252
Payables to other lenders	0	0	56,001	56,001	0	56,001
Payables to personnel	0	0	2,082	2,082	114	2,196
Trade and other payables within the year	0	0	23,057	23,057	467	23,524
Tax payables	0	0	690	690	41	731
Deferred tax liabilities	0	0	4,120	4,120	(411)	3,709
Provision for risks and charges	0	0	5,066	5,066	3	5,069
Equity	**214,899**	**123,759**	**(27,431)**	**311,227**	**1,589**	**312,816**
Total liabilities	**364,320**	**153,939**	**66,430**	**584,689**	**2,609**	**587,298**

STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER 2016

(Euro/000)	Investment & Asset Management	Investment & Development Management	Holding	Property assets	Non-property assets	31/12/2016
Investment property and inventory	259,580	135,924	0	395,504	2,214	397,718
Investments and real-estate funds	28,870	11,587	0	40,457	5	40,462
Financial receivables	2,573	10,993	84	13,650	0	13,650
Other fixed assets	0	0	2,612	2,612	255	2,867
Deferred tax assets	0	0	6,351	6,351	28	6,379
Trade and other receivables	0	0	15,675	15,675	537	16,212
Tax receivables	0	0	10,779	10,779	1,190	11,969
Cash and cash equivalents and treasury shares	0	0	12,558	12,558	282	12,840
Total assets	**291,023**	**158,504**	**48,059**	**497,586**	**4,511**	**502,097**
Payables to banks	117,843	36,151	6,972	160,966	1,271	162,237
Payables to other lenders	0	0	1,596	1,596	0	1,596
Payables to personnel	0	0	3,355	3,355	278	3,633
Trade and other payables	0	0	18,319	18,319	1,382	19,701
Tax payables	0	0	1,608	1,608	67	1,675
Deferred tax liabilities	0	0	3,903	3,903	18	3,921
Provision for risks and charges	0	0	5,956	5,956	17	5,973
Equity	**173,180**	**122,353**	**6,350**	**301,883**	**1,478**	**303,361**
Total liabilities	**291,023**	**158,504**	**48,059**	**497,586**	**4,511**	**502,097**

Note 33. IFRS 13

IFRS 13 Fair Value Measurement was published by the IASB on 12th May 2011 and endorsed by the European Union on 11th December 2012 with Reg. 1255/2012.
The standard governs the assessment and measurement of the fair value of items presented in the financial statements. IFRS 13 defines fair value as the exit price, i.e. “The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date”.
The fair value measurement process takes account of the characteristics of the asset or liability to be measured, referring to the conditions, location, constraints/restrictions on the sale or use of the items in question. Fair value measurement assumes a transaction taking place in a principal market or, in the absence of a principal market, the most advantageous market. The principal market is the market with the greatest volume and level of activity for the asset or liability.
The most advantageous market is the market that maximises the amount arising from the sale of the asset, or minimises the amount paid to transfer the liability, net of transport and ancillary costs. Unlike transport costs, ancillary costs must be considered only in the identification of the most advantageous market and not in the measurement of fair value.
Under IFRS 13:

- non-financial assets must be measured using the “Highest and best use” method, i.e. taking account of the best use of the assets from the perspective of market participants;
- liabilities (financial and non-financial) and equity instruments (i.e. shares issued as consideration in a business combination) must be transferred to a market participant at the measurement date. The fair value measurement of a liability reflects non-performance risk of the counterpart entity, including credit risk.

The general rules for preparing fair value measurement techniques should be adjusted based on the circumstances, configured in order to maximize the observable inputs and established in accordance with the measurement method used (multiples method, income method, cost method):

1. Adequate based on the circumstances: measurement techniques must be applied consistently over time, unless there are more representative alternative techniques for the measurement of fair value.
2. Maximize the observable inputs: inputs are divided into observable and unobservable, providing various examples of markets from which fair values can be calculated.

3. Measurement techniques of fair value are classified in three hierarchical levels according to the type of input used:
   - Level 1: inputs are quoted prices in active markets for identical assets or liabilities to assess. In this case, prices are used without any adjustments.
   - Level 2: inputs are quoted prices or other information (interest rates, observable yield curves, credit spreads) for similar assets and liabilities in active and inactive markets. In this case, price adjustments can be made based on specific factors of the assets or liabilities.
   - Level 3: in this case inputs are unobservable. Under the standard, the latter technique can be used only in this case. Inputs for this level include, for instance, long-term currency swaps, interest rate swaps, decommissioning liabilities undertaken in a business combination, etc..

The arrangement of these levels follows a priority hierarchy: attributing the maximum importance to level 1 and the minimum for level 3.
Under IFRS 13, there are three different measurement methods that can be used in the measurement of fair value:

- the market method uses prices and other relevant information for market participants involving identical or comparable assets and liabilities. The models used are the multiples method and matrix pricing;
- the income method is obtained from the discounted sum of future amounts to be generated by the asset. This method provides a fair value that reflects current market expectations on such future amounts;
- the cost method reflects the amount that would be required at the measurement date to replace the service capacity of the asset being measured. Fair value will be equal to the cost that a market participant would incur to acquire or build an asset of adjusted comparable use (taking account of the level of obsolescence of the asset). It should be noted that the cost method can be used only when the other methods cannot be used.

Measurement techniques are applied consistently over time, unless there are alternative techniques that provide a more representative measurement of fair value. When selecting measurement techniques, great importance is attached to the assumptions adopted in the determination of the assets or liabilities.
The assets of the Aedes Group have been classified in the 3rd hierarchical level; all properties held by Group companies have been grouped into the following categories, depending on their intended use:

- Retail;
- Office;
- Other.

The table below shows the book value and fair value of the properties owned by the companies of the Aedes Group, classified by measurement method used and the intended use:

(Euro/000)	Discounted Cash Flow (DCF)		Comparative Method		Residual Method		Total	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Retail	121,670	121,670	790	790	108,355	108,355	230,815	230,815
Office	185,000	185,000	0	0	0	0	185,000	185,000
Other	1,170	1,170	668	684	12,470	12,470	14,308	14,324
Totale	**307,840**	**307,840**	**1,458**	**1,474**	**120,825**	**120,825**	**430,123**	**430,139**

The above amounts do not include inventory that are measured under IAS 2 “Inventory”.

The main measurement methods used are the DCF and the Residual Method, while the Comparison Method is used for part of the properties, deemed as being more specific to the type of assets. There follows a breakdown of the measurement methods used:

- **Discounted Cash Flow** (or ‘DCF’): taking account of the initial investment yield and the yield profile in the early years of investment, a Discounted Cash Flow is built over a specific time horizon. This approach depends on many variables, inter alia, the market lease rent, assumptions on market growth, output yield rate, and discount rate. A comparison is also made of the initial investment yield and the yield trend with recent market transactions, using the DCF as a support in the projection of costs and revenue;

- **Comparative Method**: based on the direct comparison of an asset with similar or related purchased goods; the prices paid or requested are correlated with factors affecting the value of the property; this measurement method is usually applied to residential properties or property intended for direct users;
- **Residual Method**: generally used for vacant/to be restored properties before being re-rented or sold and for development projects; the market value is the result of the difference between the value of the converted asset and the sum of all the conversion costs, net of the profit that the subject would seek as compensation (if the subject were to buy the property today) of the double risk assumed in conversion and subsequent sale.

With regard to the measurement of the individual properties, based on the method applied and intended use, mention should be made of the:

- DCF method (approximately 72% of total fair value):
  - Retail: the discount period ranges from 2 to 13 years; a 1.40% inflation rate was mainly used over the entire time horizon. The discount rate used, instead, ranges from 6.00% to 9.00%; the net capitalization rate is between 6.15% and 8.00%;
  - Office: the discount period ranges from 3 to 15 years; an inflation rate between 1.09% and 1.40% was mainly used over the entire time horizon. The discount rate used, instead, ranges from 5.00% to 7.61%; the net capitalization rate is between 3.10% and 7.94%;
  - Other: it includes a single property for hotel use; the discount period used is equal to 10 years; a constant 1.40% inflation rate was used over the entire time horizon; the market growth rate was assumed equivalent to the inflation rate. The discount rate, instead, is 8.00%; the gross capitalization rate amounted to 6.60%.
- Residual Method (approximately 28% of overall fair value):
  This assessment method was used almost exclusively for development projects; profit for the developer ranged between 8.00% and 33.00% of development costs, while the net capitalization rate used to determine the final value of the property ranged between 6.70% and 7.50%.

As the entire property assets of the Group are subject to appraisal by independent valuers, the directors have not identified any second-level indicators of impairment.

Note 34. Significant non-recurring events and transactions

In 2017, under Consob Communication of 28th July 2006, the Aedes Group did not carry out significant non-recurring transactions.

Note 35. Atypical and/or unusual transactions

In 2017, no atypical and/or unusual transactions were carried out by the Group[15].

Note 36. Information on financial risks

CATEGORIES OF FINANCIAL INSTRUMENTS

There follows a breakdown of the financial assets and liabilities required by IFRS 7 in the scope of the categories of IAS 39.

Amounts at 31st December 2017

(Euro/000)	Assets at Fair Value	Held-to-maturity investments	Loans and receivables	Assets at amortized cost	Available-for-sale assets	Book value at 31/12/2017	Notes
Financial instruments - Assets at 31/12/2017							
Non-current financial assets	45	0	12,576	0	0	12,621	5-7-8
Trade receivables	0	0	16,073	0	0	16,073	9
Current financial assets	0	0	300	0	0	300	8
Cash and cash equivalents	0	0	23,241	0	0	23,241	11
Total	**45**	**0**	**52,190**	**0**	**0**	**52,235**	

[15] Under Consob Communication of 28th July 2006, which defines atypical and/or unusual transactions as transactions which, by significance/relevance, nature of the counterparties, object of the transaction, transfer pricing method and timing of the event, may give rise to doubts regarding: the accuracy/completeness of the information in the financial statements, conflicts of interest, safeguarding of company assets, and the protection of minorities.

(Euro/000)	Liabilities at Fair Value	Liabilities at amortized cost	Book value at 31/12/2017	Notes
Financial instruments - Liabilities at 31/12/2017				
Non-current payables to banks and other lenders	0	174,227	174,227	14
Other non-current financial liabilities	283	434	717	7
Current payables to banks and other lenders	0	64,743	64,743	14
Payables to suppliers/advances from customers	0	19,480	19,480	18
Other current financial liabilities	0	3,110	3,110	18
Total	**283**	**261,994**	**262,277**	

Amounts at 31ST December 2016

(Euro/000)	Assets at Fair Value	Held-to-maturity investments	Loans and receivables	Assets at amortized cost	Available-for-sale assets	Book value at 31/12/2016	Notes
Financial instruments - Assets at 31/12/2016							
Non-current financial assets	230	0	13,650	0	0	13,880	5-7-8
Trade receivables	0	0	15,668	0	0	15,668	9
Current financial assets	0	0	0	0	0	0	
Cash and cash equivalents	0	0	12,610	0	0	12,610	11
Total	**230**	**0**	**41,928**	**0**	**0**	**42,158**	

(Euro/000)	Liabilities at Fair Value	Liabilities at amortized cost	Book value at 31/12/2016	Notes
Financial instruments - Liabilities at 31/12/2016				
Non-current payables to banks and other lenders	0	113,866	113,866	14
Other non-current financial liabilities	605	621	1,226	7
Current payables to banks and other lenders	0	49,362	49,362	14
Payables to suppliers/advances from customers	0	16,664	16,664	18
Other current financial liabilities	0	3,360	3,360	18
Total	**605**	**183,873**	**184,478**	

FINANCIAL INCOME AND CHARGES BOOKED IN THE FINANCIAL STATEMENTS

There follows the financial income and charges booked in the financial statements.

Amounts at 31ST December 2017

(Euro/000)	From interest	From changes in fair value	From equity reserve	Exchange gains and losses	Book value at 31/12/2017	Notes
Income and loss from financial instruments - 2017						
Loans and receivables	803	0	0	0	803	27
Assets at fair value	0	137	0	0	137	27
Available-for-sale assets	0	0	0	0	0	27
Fair value liabilities	0	0	0	0	0	27
Liabilities at amortized cost	(7,100)	0	0	0	(7,100)	27
Total	**(6,297)**	**137**	**0**	**0**	**(6,160)**	

Amounts at 31ST December 2016

(Euro/000)	From interest	From changes in fair value	From equity reserve	Exchange gains and losses	Book value at 31/12/2016	Notes
Income and loss from financial instruments - 2016						
Loans and receivables	937	0	0	0	937	27
Assets at fair value	0	0	0	0	0	27
Available-for-sale assets	0	0	0	0	0	27
Fair value liabilities	0	(507)	0	0	(507)	27
Liabilities at amortized cost	(4,023)	0	0	0	(4,023)	27
Total	**(3,086)**	**(507)**	**0**	**0**	**(3,593)**	

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of trade assets and liabilities and other financial receivables and payables corresponds to the nominal value booked in the financial statements.

The fair value of payables to banks and derivatives is identified in detail in Note 14.

Under IFRS 7, derivative financial instruments measured at fair value are classified on the basis of a hierarchy of levels that reflect the significance of the inputs used for the calculation of fair value. This hierarchy has the following levels:

Level 1 - quoted prices in active markets for assets or liabilities subject to measurement;
Level 2 - inputs other than the quoted prices mentioned above, which are observable directly (prices) or indirectly (derived from prices) on the market;
Level 3 - that are not based on observable market data.

The table below shows, for loans and derivatives, the book value recognized in the balance sheet and the relating fair value.

(Euro/000)	Amount at 31/12/2017		Amount at 31/12/2016	
	Book value	Fair value	Book value	Fair value
Mortgage loans	172,392	172,392	123,539	122,889
Bonds	44,137	44,161	0	0
Lines of credit	10,860	10,860	21,366	21,366
Payables to leasing companies	0	0	16,727	16,727
Payables to other lenders	11,581	11,581	1,596	1,596
Total	**238,970**	**238,994**	**163,228**	**162,578**
Fair Value Cap	(45)	(45)	(230)	(230)
Fair Value Floor	283	283	605	605
Total Fair Value of derivatives	**238**	**238**	**375**	**375**
Total	**239,208**	**239,232**	**163,603**	**162,953**
Unrecognized (loss)/profit	(24)		650	

The table shows that, at 31st December 2017, for fixed-rate bonds only, the fair value differs from the book value. The difference of Euro 24 thousand is generated by a recalculation of the value of these loans at the closing date based on current market rates.
Fair value is classified at level 2 of the fair value hierarchy and was determined through generally recognized models of cash flow discounting, using a discounting rate based on “free risk”.

The table below summarizes the conditions of the existing payables due to banks and other lenders at 31st December 2017, grouped by interest rate range, with the relevant indication of the book value, versus the figures reported in the prior year.

(Euro/000)	31/12/2017	31/12/2016
Interest rate (current)		
<2% (*)	12,667	36,645
2% - 3%	124,665	68,849
3% - 5.5%	101,876	58,109
5.5% - 6.5%		
>6.5%		
Total	**239,208**	**163,603**

(*) The item includes the positive and negative fair value of the Collar of Euro 238 thousand at 31st December 2017 and Euro 375 thousand at 31st December 2016.

The table below shows the assets and liabilities (derivative instruments commented in Note 7) measured at fair value at 31st December 2017 and at 31st December 2016, by hierarchical level of fair value measurement.

Amounts at 31ST December 2017

(Euro/000)	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value				
Derivative financial instruments	0	45	0	45
Total assets	**0**	**45**	**0**	**45**
Derivative financial instruments	0	(283)	0	(283)
Total liabilities	**0**	**(283)**	**0**	**(283)**
Total	**0**	**(238)**	**0**	**(238)**

Amounts at 31ST December 2016

(Euro/000)	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value				
Available-for-sale assets	0	0	0	0
Derivative financial instruments	0	230	0	230
Total assets	**0**	**230**	**0**	**230**
Derivative financial instruments	0	(605)	0	(605)
Total liabilities	**0**	**(605)**	**0**	**(605)**
Total	**0**	**(375)**	**0**	**(375)**

Derivative financial instruments are measured using the Discounted Cash Flow Method. Future cash flows are discounted based on the forward rate curves expected at the end of the observation period and on the contractual fixing rates, also taking the counterparty credit risk into account, in compliance with IFRS 13.

The Group is exposed to financial risks:

- interest rate risk;
- exchange rate risk;
- liquidity risk;
- credit risk.

Risk management policies are shown in section 4.10 Main types of risk. The following section provides qualitative and quantitative disclosures on the effect of those risks on the Group.

INTEREST RATE RISK

Financial instruments that expose the Company to interest rate risk are floating–rate loans.
Interest rate risk exposure excludes fixed-rate loans, as changes in fair value are not recognized in the income statement and have no cash flow variables, depending on market conditions.

Sensitivity Analysis
The financial instruments exposed to interest rate were subject to a sensitivity analysis at the reporting date. A symmetric variation of 50 bps was applied on debt at the balance sheet date.

The table below shows the change in the operating result for the year and in equity following the sensitivity analysis.

Years	Result		Equity Reserve		Total Reserve	
	50 bps	- 50 bps	50 bps	- 50 bps	50 bps	- 50 bps
2017	**(1,195)**	**1,195**			**(1,195)**	**1,195**
2016	(816)	816			(816)	816

FLOATING-RATE LOANS

In order to reduce the Group's overall exposure to interest rate risk, the Company concluded a derivative contract on 4th November 2015 with the following characteristics:

Type	zero cost Collar
Effective date	31st December 2015
Maturity	31st December 2020
Notional value	Euro 50 million, Bullet
Floating-Rate	Euribor 3 months, act/360, quarterly
Cap strike	1.00%
Floor strike	0.00%

The notional amount underwritten amounts to approximately 20.9% of the Group's gross financial debt at 31st December 2017. It should be noted that the instrument is not tied to a specific loan, but has the purpose of reducing the risk of an increase in interest rates on the Group's overall exposure. Accordingly, any changes in the period will be recorded in the income statement as period adjustments to fair value.

EXCHANGE RATE RISK

At 31st December 2017, the Group is not subject to exchange rate risk, since it has no exposure to currencies other than the Euro.

LIQUIDITY RISK

Liquidity risk is the risk that the Company and the Group fail to meet their payment obligations, due to the difficulty in raising funds (funding liquidity risk) or in liquidating assets on the market (asset liquidity risk). This may cause adverse effects on the financial performance in the event that the Company or the Group are forced to incur additional costs to meet their commitments or, in a worst case scenario, a condition of insolvency endangering business continuity.
The Company, through its Finance Department and ongoing supervision by the Parent Company's executive bodies, keeps a watchful eye on cash and short-term financial commitments. For this purpose, the Group monitors the liquidity risk by preparing a detailed periodical financial budget, considering a time horizon of at least one year and the effective management of property sales and assumption of financial commitments.

In identifying the criteria to be used for the preparation of these Financial Statements, the Company/Group has taken account of cash flows from operations and financial commitments affecting all Group companies for a period of 12 months from the date of the forthcoming approval of the financial statements for the year under review, including the planned investing activities and forthcoming maturity of specific loan agreements currently in place.
Based on the requirements arising from the financial budget, the Company has identified the main funding sources, deriving mainly from:

- refinancing of certain assets;
- disposal of certain assets;
- rescheduling of short-term credit facilities.

Based on the information and the documentary evidence available at the date of preparing the financial statements at 31st December 2017, and on the progress of the initiatives currently in place with regard to the above funding sources, there are no significant risks of a possibility of not completing the actions according to the schedule and procedures set out in the financial budget. The Group's liquidity situation at the end of the twelve-month period is expected to be positive, despite acquisitions and investments in existing properties, to be financed using credit, via the market and/or by disposing of existing assets during the year. Accordingly, the Directors believe there are no uncertainties on the Company and Group's ability to meet their current and prospective financial obligations in the foreseeable future.

(Euro/000)	Book value	Contractual cash flows	Within 1 year	1-2 years	2-5 years	Over 5 years
31 December 2017						
Non-derivative financial liabilities						
Mortgage loans	172,392	186,296	57,780	12,744	105,052	10,720
Bonds	44,137	51,530	2,160	2,336	47,034	0
Payables to leasing companies	0	0	0	0	0	0
Lines of credit	10,860	11,128	11,128	0	0	0
Other lenders	11,581	13,171	810	559	11,802	0
Total	**238,970**	**262,125**	**71,878**	**15,639**	**163,888**	**10,720**
Derivative financial instruments						
Hedge derivatives	0	0	0	0	0	0
Non-hedge derivatives	**238**	**238**	**0**	**0**	**238**	**0**
Fair Value Cap	(45)	(45)	0	0	(45)	0
Fair Value Floor	283	283	0	0	283	0
Total	**239,208**	**262,363**	**71,878**	**15,639**	**164,126**	**10,720**

(Euro/000)	Book value	Contractual cash flows	Within 1 year	1-2 years	2-5 years	Over 5 years
31 December 2016						
Non-derivative financial liabilities						
Mortgage loans	123,539	131,781	29,596	54,272	30,567	17,346
Finance lease liabilities	16,727	17,424	1,503	1,548	14,373	0
Line of credit	21,366	21,731	20,869	862	0	0
Payables to other lenders	1,596	1,899	52	300	151	1,396
Total	**163,228**	**172,835**	**52,020**	**56,982**	**45,091**	**18,742**
Derivative financial instruments						
Hedge derivatives	0	0	0	0	0	0
Non-hedge derivatives	**375**	**375**	**0**	**0**	**375**	**0**
Fair Value Cap	(230)	(230)	0	0	(230)	0
Fair Value Floor	605	605	0	0	605	0
Total	**163,603**	**173,210**	**52,020**	**56,982**	**45,466**	**18,742**

The Company, through its Finance Department and ongoing supervision by the Parent Company's executive bodies, keeps a watchful eye on cash. For this purpose, the Group monitors the liquidity risk by preparing a detailed financial budget over a time horizon of at least one year and the effective management of property sales and assumption of financial commitments.
In identifying the criteria to use in the preparation of these financial statements, the Company has taken account of the financial commitments affecting the Group over a period of 12 months, including the investment activities and the maturity of certain loan agreements. Based on these requirements, the Company has identified the main funding sources, mainly traceable to refinancing of certain assets and disposal of part of the non-strategic portfolio. Based on the information and the documentary evidence available at the time of preparing the financial statements at 31st December 2017, no significant risks have been identified regarding the possibility that actions undertaken can be completed in the period under review.

Analysis of liabilities by maturity

To complete the disclosures contained in the specific notes to the financial position, here below are the balancing items for the years ended 31st December 2017 and 31st December 2016.

Amounts at 31ST December 2017

(Euro/000)	Book value	committed	within 1 year	1 to 5 years	over 5 years
Analysis of liabilities by maturity at 31/12/2017					
Non-current payables to banks and other lenders	174,227	0	0	164,152	10,075
Other non-current financial liabilities	717	0	0	434	283
Current payables to banks and other lenders	64,743	0	64,743	0	0
Payables to suppliers/advances from customers	19,480	0	19,480	0	0
Other current financial liabilities	3,110	0	3,110	0	0
Total	**262,277**	**0**	**87,333**	**164,586**	**10,358**

Amounts at 31ST December 2016

(Euro/000)	Book value	committed	within 1 year	1 to 5 years	over 5 years
Analysis of liabilities by maturity at 31/12/2016					
Non-current payables to banks and other lenders	113,866	0		96,208	17,658
Other non-current financial liabilities	1,226	0	0	621	605
Current payables to banks and other lenders	49,362	0	49,362	0	0
Payables to suppliers/advances from customers	16,664	0	15,192	1,472	0
Other current financial liabilities	3,360	0	3,360	0	0
Total	**184,478**	**0**	**67,914**	**98,301**	**18,263**

CREDIT RISK

The Group's credit risk is mainly related to trade receivables from the sale of properties or investments and the provision of services. For the latter, see the specific sections in the Explanatory Notes.

4.14 Annex 1 - Company information

FULLY CONSOLIDATED SUBSIDIARIES

Investment	Registered Office	Share Capital	Equity Interests
Aedes Project S.r.l. in liquidation (*)	Milan Via Morimondo 26, Ed. 18	€ 520,000	91% Aedes SIIQ S.p.A.
Bollina S.r.l.	Serravalle Scrivia (AL) Via Monterotondo, 58	€ 50,000	70% Aedes SIIQ S.p.A.
ATA Consortium	Serravalle Scrivia (AL) Via Novi, 39	€ 10,000	99.33% Aedes SIIQ S.p.A.
Petrarca Fund	–	–	100% Aedes SIIQ S.p.A.
Redwood Fund	–	–	100% Aedes SIIQ S.p.A.
Novipraga SIINQ S.p.A.	Milan Via Morimondo 26, Ed. 18	€ 100,000	100% Aedes SIIQ S.p.A.
Pragafrance S.à.r.l.	Nice (France) 14, Rue Dunoyer de Séconzac	€ 52,000	75% Aedes SIIQ S.p.A.
Pragaquattro Center SIINQ S.p.A.	Milan Via Morimondo 26, Ed. 18	€ 54,000	100% Aedes SIIQ S.p.A.
Pragaotto S.r.l.	Milan Via Morimondo 26, Ed. 18	€ 100,000	100% Aedes SIIQ S.p.A.
Pragasette S.r.l. in liquidation	Milan Via Morimondo 26, Ed. 18	€ 10,000	60% Aedes SIIQ S.p.A
Pragaundici SIINQ S.p.A.	Milan Via Morimondo 26, Ed. 18	€ 100,000	100% Aedes SIIQ S.p.A.
Praga Res S.r.l.	Milan Via Morimondo 26, Ed. 18	€ 100,000	100% Aedes SIIQ S.p.A.
Sedea SIIQ S.p.A.	Milan Via Morimondo 26, Ed. 18	€ 50,000	100% Aedes SIIQ S.p.A.
Satac SIINQ S.p.A.	Milan Via Morimondo 26, Ed. 18	€ 620,000	100% Aedes SIIQ S.p.A.
Società Agricola La Bollina S.r.l.	Serravalle Scrivia (AL) Via Monterotondo, 58	€ 100,000	100% Aedes SIIQ S.p.A.

(*) Aedes Project S.r.l. in liquidation was removed from the Company Register on 28th February 2018.

Aedes Project S.r.l. in liquidation
The company was held 91% by Aedes SIIQ S.p.A..

Bollina S.r.l.
Operating in the wine trade business. Held 70% by Aedes SIIQ S.p.A..

ATA Consortium
Consortium established for the development of the project owned by S.A.T.A.C. SIINQ S.p.A. in Caselle Torinese (TO), holder of 99.33% of the shares.

Petrarca Fund
Fund specialized in the office segment, held 100% by Aedes SIIQ S.p.A..

Redwood Fund
Fund specialized in the commercial segment, held 100% by Aedes SIIQ S.p.A..

Novipraga SIINQ S.p.A.
Unlisted property investment company (SIINQ), owner of properties under development intended for commercial and economic/productive use in Serravalle Scrivia (AL) and Novi Ligure (AL). Held 100% by Aedes SIIQ S.p.A..

Pragafrance S.à.r.l.
Owner of properties on the French Riviera (France) intended for residential use, partly subject to renovation and development, and partly completed. Held 75% by Aedes SIIQ S.p.A..

Pragaquattro Center SIINQ S.p.A.
Unlisted property investment company (SIINQ), owner of properties under development and intended for commercial use (Castellazzo Design Center) in the Municipality of Castellazzo Bormida (AL) and in the Municipality of Borgoratto Alessandrino (AL). Held 100% by Aedes SIIQ S.p.A..

Pragaotto S.r.l.
Owner of rented assets (intended for tourism/reception and residential use) and under development (Bollina intended for tourism/accommodation, sports/recreation and residential use) in the Municipality of Serravalle Scrivia (AL). Held 100% by Aedes SIIQ S.p.A..

Pragasette S.r.l. in liquidation
A company that completed in 2015 the piecemeal sale of a property intended for residential use in Mentone (France). Held 60% by Aedes SIIQ S.p.A..

Pragaundici SIINQ S.p.A.
Unlisted property investment company (SIINQ), owner of properties under development (Serravalle Outlet Village Phase B intended for commercial use) in the Municipality of Serravalle Scrivia (AL). Held 100% by Aedes SIIQ S.p.A..

Praga Res S.r.l.
Company that performs Project and Construction Management services, primarily intercompany. Held 100% by Aedes SIIQ S.p.A..

Sedea SIIQ S.p.A.
Held 100% by Aedes SIIQ S.p.A..

S.A.T.A.C. SIINQ S.p.A.
Unlisted property investment company (SIINQ), owner of properties (Caselle Designer Village intended for commercial and office use) in the Municipality of Caselle Torinese. Held 100% by Aedes SIIQ S.p.A..

Società Agricola La Bollina S.r.l.
Operating in the wine business, owner of farmland in the Municipality of Serravalle Scrivia (AL) and land managed through the rental of a farm building in the Municipality of Novi Ligure (AL) and a cellar in the Municipality of Serravalle Scrivia (AL). Held 100% by Aedes SIIQ S.p.A..

ASSOCIATES AND JOINT VENTURES CONSOLIDATED AT EQUITY

Investment	Registered Office	Share Capital	Equity Interests
Aedilia Nord Est S.r.l.	Milan Via Morimondo 26, Ed. 18	€ 8,797,086	56.52% Aedes SIIQ S.p.A.
Borletti Group SAM S.A.	L-1136 Luxembourg Place d'Armes 1T	–	40% Aedes SIIQ S.p.A.
Efir S.à.r.l.	5 Allé Scheffer L - 2520 Luxembourg	€ 22,279,300	33.33% Aedes SIIQ S.p.A.
Dante Retail Fund	–	–	100% Efir S.à.r.l.
Leopardi Fund	–	–	24.389% Aedes SIIQ S.p.A.
Nichelino S.c.a.r.l.	Tortona (AL) S.S. per Alessandria 6A	€ 10,000	50% Praga Construction S.r.l.
InvesCo S.A.	L-1136 Luxembourg Place d'Armes 1T	–	40% Aedes SIIQ S.p.A.
Pragasei S.r.l.	Milan Via Monte Napoleone, 29	€ 100,000	50.1% Aedes SIIQ S.p.A.
Serravalle Village S.c.a.r.l.	Tortona (AL) S.S. per Alessandria 6A	€ 10,000	50% Praga Res S.r.l. (former Praga Construction S.r.l.)

Aedilia Nord Est S.r.l.
Held 56.52% by Aedes S.p.A. SIIQ, which owns an exclusive property in Venice Cannareggio. Also holder of 100% in Pival S.r.l., owner of a building plot in Piove di Sacco.

Borletti Group SAM S.A.
Company held 40% by Aedes SIIQ S.p.A., which manages and coordinates "The Market".

Efir S.à.r.l.
Owned 33.33% by Aedes S.p.A. SIIQ, which holds 100% of the Dante Retail Fund, owner of retail properties located across the Country, also holder of investments in Giulio Cesare S.r.l., Mercurio S.r.l. in liquidation, and Palmanova S.r.l., owners of business units engaged in the commercial activities of a number of properties owned by the Fund.

Leopardi Fund
Fund with a property portfolio intended for mixed use, held 24.389% by Aedes SIIQ S.p.A.. Also owner of: (i) 100% of Alpe Adria S.r.l. and Agrigento S.r.l., holders of business units; (ii) 100% of Galileo Ferraris 160 S.r.l., owner of an area in Naples; (iii) 73.39% in Tolcinasco Golf S.r.l., owner of the golf course bearing the same name; (iv) 100% of Rho Immobiliare S.r.l., owner of the shopping center "Rho Center"; (v) 100% of F.D.M. S.A., owner of an exclusive asset in Forte dei Marmi (LU); (vi) 100% of Rubattino 87 S.r.l., engaged in the development, construction and sale of areas in Milan, and owner of apartments in Milan; (vii) 50% in Rubattino Ovest S.p.A., through Rubattino 87 S.r.l., a joint venture engaged in the development of free residence in via Rubattino - West Area; (viii) 50% in Via Calzoni S.r.l. in liquidation, owner of areas in Bologna; (ix) 40% in Induxia S.r.l. in liquidation, owner of areas in Binasco and Lacchiarella; and (x) 49% in Trixia S.r.l., owner of areas and of a farmhouse in the province of Milan, and owner of part of the Tolcinasco Castello, located in Basiglio (MI).

InvesCo S.A.
Company owned 40% by Aedes SIIQ S.p.A. involved in the activities related to "The Market".

Nichelino S.c.ar.l. and Serravalle Village S.c.ar.l.
Consortium companies established by the Temporary Association of Companies between Praga Res S.r.l. (former Praga Construction S.r.l.) and Itinera S.p.A., each holding 50%, for the construction of a shopping center in Nichelino (a) and of Phase A of the Serravalle Outlet Village.

Pragasei S.r.l.
Owner of properties under construction (Serravalle Outlet Village intended for commercial use) in Serravalle Scrivia (AL). Held 50.1% by Aedes SIIQ S.p.A. in joint venture with TH Real Estate.

4.15 Annex 2 - Transactions with related parties

Transactions carried out over the year by the Aedes Group with companies outside of the consolidation scope consist mainly in administrative and property services, as well as loans issued by Group companies to non-consolidated companies, charged at rates in line with those normally applied by the banking system.
All transactions with related parties are settled at arm's length.

(Euro/000)	Non-current financial receivables	Current financial receivables	Cash and cash equivalents	Current trade receivables	Current financial payables	Non-current financial payables	Trade and other current payables	Revenue from sales and services	Other revenue	Costs for raw materials and services	Personnel expense	Other operating costs	Financial income	Financial charges
Counterparty														
Parent companies														
Augusto S.p.A.	0	0	0	72	86	10,000	47	18	18	(269)	0	0	0	(344)
Total from parents	**0**	**0**	**0**	**72**	**86**	**10,000**	**47**	**18**	**18**	**(269)**	**0**	**0**	**0**	**(344)**
Associates and joint ventures														
Aedilia Nord Est S.r.l.	1,688	0	0	10	0	0	0	10	1	0	0	0	63	0
Alpe Adria S.r.l.	0	0	0	7	0	0	0	0	0	0	0	0	0	0
Leopardi fund	0	0	0	894	0	0	0	0	0	0	0	761	0	0
Mercurio S.r.l. - in liquidation	0	0	0	0	0	0	1	0	0	0	0	0	0	0
Nichelino Village S.c.a.r.l.	1,024	0	0	1,233	0	0	4,578	0	121	(9,789)	0	0	0	0
Parco Grande S.c.a.r.l.	0	0	0	0	0	0	0	0	0	0	0	17	0	0
Pival S.r.l.	0	0	0	22	0	0	0	10	0	0	0	0	0	0
Pragasei S.r.l.	9,790	0	0	286	0	0	0	94	0	0	0	0	542	0
Serravalle Village S.c.a.r.l.	0	300	0	3	0	0	90	0	76	(390)	0	0	0	0
The Market Propco S.r.l.	0	0	0	354	0	0	0	354	0	0	0	0	0	0
Total from associates and joint ventures	**12,502**	**300**	**0**	**2,809**	**0**	**0**	**4,669**	**468**	**198**	**(10,179)**	**0**	**778**	**605**	**0**
Other related parties														
Banca Profilo S.p.A.	0	0	9,371	0	11	4,875	46	0	0	(754)(*)	0	0	0	(277)
Sator Immobiliare SGR S.p.A.	0	0	0	249	0	0	23	156	4	0	(91)	0	0	0
Società Investimenti Mobiliari Uno SS	0	0	0	0	2	683	0	0	0	0	0	0	0	(2)
Dentons Europa Studio Legale Tributario	0	0	0	0	0	0	1	0	0	(53)	0	0	0	0
VI.BA. S.r.l.	0	0	0	1	0	0	0	0	0	0	0	0	0	0
Agarp S.r.l.	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Arepo Ad S.à.r.l.	0	0	0	1	0	0	0	0	2	0	0	0	0	0
Prarosa S.r.l.	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tiepolo S.r.l.	0	0	0	0	0	0	0	0	1	0	0	0	0	0
Total other related parties	**0**	**0**	**9,371**	**251**	**13**	**5,558**	**70**	**156**	**7**	**(807)**	**(91)**	**0**	**0**	**(279)**
Total related parties	**12,502**	**300**	**9,371**	**3,132**	**99**	**15,558**	**4,786**	**642**	**223**	**(11,255)**	**(91)**	**778**	**605**	**(623)**

(*) Of which costs capitalized on the bond and subject to amortized cost of Euro 262 thousand towards Augusto S.p.A. and Euro 754 thousand towards Banca Profilo S.p.A..

The overall fees resolved for the Directors, including Directors with proxies, Statutory Auditors and Key Management Personnel are shown in the table below:

(Euro/000)	Aedes SIIQ S.p.A.	Subsidiaries and associates	Total
Fees to directors and statutory auditors			
Fees to members of the Board of Directors	2,311	0	2,311
of which paid back	0	0	0
Fees to members of the Board of Statutory Auditors	96	56	152
Fees to Directors and Statutory Auditors for positions held in the Supervisory Body	45	0	45
of which Directors of Aedes SIIQ S.p.A.	0	0	0
of which Statutory Auditors of Aedes SIIQ S.p.A.	45	0	45
Total	**2,452**	**56**	**2,508**

For further details, reference should be made to the Remuneration Report of the Company, prepared pursuant to art. 123-ter of the TUF, which will be published pursuant to the law also on the Company website.

4.16 Annex 3 - Investments in associates and joint ventures

(Euro/000)	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Investment				
Associates and joint ventures				
Aedilia Nord Est S.r.l.	4	9,085	2,784	13
EFIR S.ar.l. - Dante Retail Fund	56,851	236	0	91
Dante Retail Fund	118,660	12,904	70,151	744
Leopardi Fund	39,848	7,979	24,342	3,674
Pragasei S.r.l.	43,802	14,494	19,056	38,553
Total	**259,165**	**44,698**	**116,333**	**43,075**

(Euro/000)	Revenue from sales and services	Other revenue	Change in inventory	Costs for raw materials and services	Personnel expense	Other operating costs
Investment						
Associates and joint ventures						
Aedilia Nord Est S.r.l.	319	0	130	(211)	0	(9)
EFIR S.à.r.l. - Dante Retail Fund	0	0	0	(33)	0	(12)
Dante Retail Fund	9,116	13	0	(1,665)	0	(1,063)
Leopardi Fund	1,977	0	0	0	0	(4,201)
Pragasei S.r.l.	6,438	27	0	(3,440)	0	(188)
Total	**17,850**	**40**	**130**	**(5,349)**	**0**	**(5,473)**

(Euro/000)	Amortization and depreciation	Write-downs and allocations	Net financial income/(Charges)	Income/(Charges) from investment	Taxes	Profit/(Loss) for the period
Investment						
Associates and joint ventures						
Aedilia Nord Est S.r.l.	0	0	(7)	(380)	0	(158)
EFIR S.à.r.l. - Fondo Dante Retail	0	0	(2)	1,721	(49)	1,625
Dante Retail Fund	0	(1,375)	(1,475)	4	0	3,555
Leopardi Fund	0	(3,710)	(407)	(6,580)	0	(12,921)
Pragasei S.r.l.	(3)	(344)	(2,257)	0	(37)	196
Total	**(3)**	**(5,429)**	**(4,148)**	**(5,235)**	**(86)**	**(7,703)**

The table below shows the breakdown of the net financial position of companies measured at equity:

(Euro/000)	% of investment	NFP al 100%	NFP pro-quota
Investment			
Aedilia Nord Est S.r.l.	56.52%	151	85
EFIR S.à.r.l. - Dante Retail Fund	33.33%	169	56
Dante Retail Fund	33.33%	81,953	27,315
Leopardi Fund	24.39%	24,729	6,031
Pragasei S.r.l.	50.10%	(45,783)	(22,937)
Total		**61,219**	**10,550**

Taking the listed debt into account, mention should be made that debt is, in turn, secured mainly by property guarantees. See Note 31 for any Group commitments.

4.17 Annex 4 - Information required by art. 149-duodecies of the Consob Issuer Regulations

The following statement, prepared in accordance with art. 149-duodecies of the Consob Issuer Regulations, shows the fees in 2017 for external auditing and for services other than auditing rendered by the Independent Auditors.

(Euro/000)	Services provided by	Recipient	Fees paid in 2017
Audit	Deloitte & Touche S.p.A.	Parent - Aedes SIIQ S.p.A.	256
	Deloitte & Touche S.p.A.	Subsidiaries	150
Other services	Deloitte & Touche S.p.A.	Parent - Aedes SIIQ S.p.A.	100
Total			**506**

4.18 Certification of the Consolidated Financial Statements[1]

The undersigned Giuseppe Roveda, as Chief Executive Officer, and Alessia Farina, as Financial Reporting Manager of Aedes SIIQ S.p.A., also in accordance with art. 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24th February 1998, certify:

- the adequacy in relation to the characteristics of the Aedes Group and
- the effective application of administrative and accounting procedures for the preparation of the consolidated financial statements in 2017.

We also certify that

1. The consolidated financial statements:
   a. have been prepared in accordance with the applicable International Accounting Standards endorsed by the European Union, pursuant to EEC Regulation no. 1606/2002 of the European Parliament and Council of 19th July 2002;
   b. are consistent with the accounting records and books;
   c. give a true and fair view of the financial position and results of operations of the Company and of the companies included in the consolidation scope of the Aedes Group as a whole.

2. The Directors' Report contains a reliable analysis of the performance, results of operations and the situation of the Issuer and the companies included in the consolidation scope as a whole, together with a description of the main risks and uncertainties to which they are exposed.

Milan, 14th March 2018

The Chief Executive Officer	The Financial Reporting Manager
Giuseppe Roveda	Alessia Farina

[1] Pursuant to art. 81-ter of Consob Regulations no. 11971 of 14th May 1999 as subsequently amended and supplemented.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Aedes SIIQ S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Aedes SIIQ S.p.A. and its subsidiaries (the "Group" or the "Aedes Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

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 our report. We are independent of Aedes SIIQ S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of property portfolio

Description of key audit matter

The Group's consolidated financial statements include investment properties, measured at fair value according to IAS 40, for Euro 430,1 million and the related net gain from fair value adjustments, recorded in the consolidated income statement, equal to Euro 20,9 million. In addition, the Group holds the property portfolio through investments in associates and joint ventures accounted for using the equity method, whose carrying amount is equal to Euro 40,3 million, and property inventories, measured at the lower of cost and net realizable value, for a value of Euro 49,5 million.

The Group's property portfolio includes properties under development, investment properties and inventories held for sale, and the valuation methods and assumptions underlying the determination of fair value and net realizable value with regard to inventories, vary according to the type of investment.

The evaluation process of the Group's property portfolio, conducted by the Directors on the basis of appraisals prepared by independent experts, is complex and derives from variables and assumptions concerning future trends influenced by economic and market conditions that are difficult to forecast. In particular, the assumptions underlying the valuations made by the Directors in relation to the property portfolio mainly relate to the following variables: *(i)* the net cash flows expected from the properties and the relative timing of completion; *(ii)* inflation rates, discount rates and capitalization rates.

Given the materiality of the property portfolio and the complexity and subjectivity of the valuation process conducted by the Directors, with particular regard to the aforementioned variables, we considered the valuation of the property portfolio a key audit matter of the consolidated financial statements of the Aedes Group as at December 31, 2017.

Notes 1, 4 and 10 of the consolidated financial statements provide information on investment properties, investments in associates and joint ventures and inventories held by the Group, respectively. Note 33 and the paragraph "Significant estimates and assumptions", describes the assumptions underlying the valuations relating to the property portfolio.

Audit procedures

As part of our audit, conducted on a sample basis, we have, among other things, carried out the following procedures, also with the support of our evaluation experts:

- developed an understanding of the significant processes and controls implemented by the Aedes Group on the selection of the independent experts used by the Directors for the valuation of the property portfolio;
- assessed the competence, capabilities and objectivity of the independent experts by verifying their professional qualifications, examining the terms of their engagements and obtaining information from the Management;
- performed an analysis of the adequacy of the valuation methods and of the reasonableness of the main assumptions adopted for the valuation of the property portfolio through interviews conducted with both the Management and the independent experts as well as through an in-depth analysis and critical reading of the appraisals;
- verified the consistency of the data communicated by the Management to the independent experts with those used in the appraisals;
- performed a comparison of inflation rates, discount rates, capitalization rates and market rents used for the preparation of appraisals with external sources (data and market information available from public sources and comparable transactions);
- verified the mathematical accuracy of the models used by the independent experts for their evaluations;
- verified the adequacy of the information reported by the Group in the explanatory notes with reference to the various types of investments held.

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 International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

- Evaluate 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.

- Obtain 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.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Aedes SIIQ S.p.A. has appointed us on June 10, 2015 as auditors of the Company for the years from December 31, 2015 to December 31, 2023.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Aedes SIIQ S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Aedes Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Aedes Group as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Aedes Group as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Giacomo Bellia
Partner

Milan, Italy
April 5, 2018

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

5 FINANCIAL STATEMENTS AND EXPLANATORY NOTES OF AEDES SIIQ S.P.A.

5.1 Statement of Financial Position[1]

(Euro)	Note	31/12/2017	of which related parties	31/12/2016	of which related parties
Assets					
Non-current assets					
Investment property	1	201,400,000		163,960,000	
Other tangible fixed assets	2	1,861,018		2,248,201	
Intangible fixed assets	3	68,061		53,414	
Equity investments in subsidiaries	4	115,431,199		79,975,888	
Equity investments in associates and other companies	5	38,244,845		37,905,020	
Receivables for prepaid taxes	6	1,056,106		1,059,482	
Derivative financial instruments	7	45,687		230,409	
Financial receivables	8	48,029,559	47,981,940	66,884,723	66,830,164
Trade and other receivables	9	636,189		1,136,820	
Total non-current assets		**406,772,664**		**353,453,957**	
Current assets					
Inventory	10	1,867,028		187,028	
Financial receivables	8	234,000	234,000	304,703	304,703
Trade and other receivables	9	18,418,816	6,489,786	16,415,636	3,984,592
Cash and cash equivalents	11	14,311,968	9,371,421	3,848,620	
Total current assets		**34,831,812**		**20,755,987**	
Total assets		**441,604,476**		**374,209,944**	

(Euro)	Note	31/12/2017	of which related parties	31/12/2016	of which related parties
Equity					
Share capital		212,945,601		212,945,601	
Treasury shares		(13,806)		(1,454,432)	
Fair value and other reserves		48,314,341		47,326,888	
Retained earnings/(losses carried forward)		25,451,828		8,827,452	
Profit/(Loss) for the year		3,178,014		17,312,689	
Total equity	**12**	**289,875,978**		**284,958,198**	
Liabilities					
Non-current liabilities					
Payables to banks and other lenders	13	123,395,731	15,557,855	40,202,899	
Derivative financial instruments	7	283,508		605,265	
Payables for deferred taxes	6	1,683,940		1,324,353	
Payables for severance indemnity	14	896,130		561,056	
Provisions for risks and charges	15	4,349,797		5,160,414	
Trade and other payables	16	1,165,151	1,043,720	2,581,125	2,226,125
Tax payables	17	0		220,428	
Total non-current liabilities		**131,774,257**		**50,655,540**	
Current liabilities					
Payables to banks and other lenders	13	4,402,029	98,879	27,243,008	
Trade and other payables	16	15,001,888	5,925,738	10,191,586	3,195,776
Tax payables	17	550,324		1,161,612	
Total current liabilities		**19,954,241**		**38,596,206**	
Total liabilities		**151,728,498**		**89,251,746**	
Total liabilities and equity		**441,604,476**		**374,209,944**	

[1] Under Consob Resolution no. 15519 of 27th July 2006, the effects of transactions with related parties are shown in the statement of financial position and income statement, and in the relevant Explanatory Notes.

5.2 Income Statement

(Euro)	Note	31/12/2017	of which related parties	31/12/2016	of which related parties
Income statement					
Revenue from sales and services	18	12,885,307	765,636	11,612,335	3,739,306
Other revenue	19	1,638,694	1,215,680	2,045,455	373,144
Change in inventory	20	0		(2,293,000)	
Costs for raw materials and services	21	(9,979,706)	(1,399,788)	(8,081,573)	(651,246)
Personnel expense	22	(4,416,122)		(3,876,851)	
Other operating costs	23	(2,091,963)	(227,360)	(1,339,663)	(354,946)
Amortization, depreciation and impairment losses	24	(462,125)		(463,208)	
Fair value adjustments	24	14,623,299		32,636,788	
Write-downs and allocations	24	790,879		(1,817,151)	
Income/(Charges) from investments	25	(6,853,999)		(11,093,081)	1,216,997
EBIT		**6,134,264**		**17,330,051**	
Financial income	26	2,913,515	2,578,951	2,456,772	2,348,508
Financial charges	26	(5,646,534)	(636,154)	(2,151,412)	16,114
Profit before taxes		**3,401,245**		**17,635,411**	
Taxes	27	(223,231)		(322,722)	
Result for the year		**3,178,014**		**17,312,689**	

5.3 Comprehensive Income Statement

(Euro)	31/12/2017	31/12/2016
Comprehensive income statement		
Comprehensive income for the year	**3,178,014**	**17,312,689**
Other items recognized in equity that will not be reclassified to the income statement in a subsequent period:		
Actuarial (gains)/losses on post-employment benefits	(10,987)	(12,891)
Total comprehensive income net of taxes	**3,167,027**	**17,299,798**

5.4 Statement of changes in Equity

(Euro)	Share capital	Treasury shares	Other reserves			Retained earnings/ (losses carried forward)	Result for the year	Total
			Merger reserve	Legal reserve	Other for capital increase			
01/01/2016	**212,945,601**	**(265,977)**	**(3,637,394)**	**2,230,537**	**48,705,436**	**8,297,261**	**566,172**	**268,841,636**
Allocation of 2015 result				28,309		537,863	(566,172)	0
Treasury shares held		(1,188,455)				5,219		(1,183,236)
Profit for the year							17,312,689	17,312,689
Actuarial (gains)/losses on post-employment benefits						(12,891)		(12,891)
Total comprehensive profit						(12,891)	17,312,689	17,299,798
31/12/2016	**212,945,601**	**(1,454,432)**	**(3,637,394)**	**2,258,846**	**48,705,436**	**8,827,452**	**17,312,689**	**284,958,198**

(Euro)	Share capital	Treasury shares	Other reserves			Retained earnings/ (losses carried forward)	Result for the year	Total
			Merger reserve	Legal reserve	Other for capital increase			
01/01/2017	**212,945,601**	**(1,454,432)**	**(3,637,394)**	**2,258,846**	**48,705,436**	**8,827,452**	**17,312,689**	**284,958,198**
Allocation of 2016 result				865,634		16,447,055	(17,312,689)	0
Merger surplus			121,819					121,819
Treasury shares held		1,440,626				188,308		1,628,934
Profit for the year							3,178,014	3,178,014
Actuarial (gains)/losses on post-employment benefits						(10,987)		(10,987)
Total comprehensive profit						(10,987)	3,178,014	3,167,027
31/12/2017	**212,945,601**	**(13,806)**	**(3,515,575)**	**3,124,480**	**48,705,436**	**25,451,828**	**3,178,014**	**289,875,978**

5.5 Statement of Cash Flows

(Euro)	31/12/2017	31/12/2016
Result for the year	3,178,014	17,312,689
Losses/(Gains) from sale of investments	535,714	572,277
Gains from sale of tangible/intangible fixed assets	(580,070)	0
Amortization, depreciation and impairment losses	462,125	539,834
Fair value adjustment of investment property	(14,623,299)	(32,636,788)
Impairment losses on equity investments in subsidiaries and associates	6,318,285	11,559,000
Impairment losses	(348,158)	178,000
Other provisions	(219,372)	1,917,165
Financial charges/(income)	2,733,019	(305,360)
Current and deferred taxes for the period	223,231	322,722
Change in payables for severance indemnity	(130,984)	(126,125)
Change in provisions for risks and charges	(198,510)	(1,028,650)
Change in inventory	0	2,292,972
Change in trade and other receivables	2,653,293	(3,784,651)
Change in trade and other payables	1,062,527	5,200,890
Change in other assets and liabilities	(4,915,143)	(1,636,408)
Income taxes (paid)/received	5,669,271	(379,338)
Interest (paid)/received	(5,323,429)	(1,452,456)
Cash flow from operations	**(3,503,486)**	**(1,453,427)**
Change in investment property and other fixed tangible assets	(14,184,104)	(14,669,586)
Increases in intangible investments	(47,930)	(15,142)
Cash flows from (purchase)/disposal of investments	(17,415,251)	(9,796,149)
Change in financial receivables from subsidiaries and associates	(14,645,324)	(19,799,211)
Cash flow from investing activities	**(46,292,609)**	**(44,280,088)**
Effects of changes in payables to banks and other lenders	56,816,021	(4,970,997)
(Purchase) and disposal of treasury shares	1,628,934	(1,183,236)
Cash flow from financing activities	**58,444,955**	**(6,154,233)**
Change in net liquidity available	**8,648,860**	**(51,887,748)**
Cash and cash equivalents at beginning of period	**3,848,620**	**55,555,375**
Cash and cash equivalents at beginning of period merged companies	**1,814,488**	**180,993**
Cash and cash equivalents at end of period	**14,311,968**	**3,848,620**

5.6 Significant non-recurring transactions

On 29th May 2017, the Board of Directors of Aedes SIIQ S.p.A., pursuant to art. 12 of the bylaws and to art. 2505 of the Italian Civil Code, approved the project for the merger by incorporation of the wholly-owned companies Cascina Praga SIINQ S.p.A. and Redwood S.r.l. (merger deed signed by notary Stefano Rampolla in Milan on 31st July 2017, index no. 58934/15320, listed in the Milan Company Register on 3rd August 2017, effective towards third parties, pursuant to art. 2504 bis, par. 1, of the Italian Civil Code as from 3rd August 2017).
Both mergers have a retroactive effect for accounting and tax purposes as from 1st January 2017. The effects of these mergers have been incorporated in this Report.
These operations fall within a more complex operation of reorganization and strategic reorientation of the Group, which, through transfers, voluntary liquidations and mergers, aims to consolidate the Parent Company's portfolio of rented assets, in line with the SIIQ/REIT model, while ensuring greater efficiency of the Group structure under the management, economic, financial and control perspective.

The decision was taken to account for the transaction in question, in accordance with the provisions of OPI 2 on the continuity of values from the situation shown in Consolidated Financial Statements of the Aedes Group.

The financial effects of the merger are shown below:

(Euro/000)	(A) Aedes SIIQ S.p.A. 31/12/2016	Cascina Praga SIIQ S.p.A. 31/12/2016	Readwood S.r.l. 31/12/2016	(B) Effect of merger (*)	(A + B) Post merger 01/01/2017
Assets					
Non-current assets					
Investment property	163,960	9,241	1,830	11,150	175,110
Other tangible fixed assets	2,248	0	2	2	2,250
Intangible fixed assets	53	0	0	0	53
Equity investments in subsidiaries	79,976	0	0	(6,327)	73,649
Equity investments in associates and other companies	37,905	0	0	0	37,905
Receivables for prepaid taxes	1,059	0	0	0	1,059
Derivative instruments	231	0	0	0	231
Financial receivables	66,885	3	0	(1,332)	65,553
Trade and other receivables	1,137	96	0	0	1,137
Total non-current assets	**353,454**	**9,340**	**1,832**	**3,493**	**356,947**
Current assets					
Inventory	187	1,600	0	1,680	1,867
Financial receivables	305	0	0	0	305
Trade and other receivables	16,415	408	1,147	1,168	17,583
Cash and cash equivalents	3,849	17	1,797	1,814	5,663
Total current assets	**20,756**	**2,025**	**2,944**	**4,662**	**25,418**
Total assets	**374,210**	**11,365**	**4,776**	**8,155**	**382,365**
Total equity	**284,958**	**5,352**	**938**	**122**	**285,080**

(Euro/000)	(A) Aedes SIIQ S.p.A. 31/12/2016	Cascina Praga SIIQ S.p.A. 31/12/2016	Readwood S.r.l. 31/12/2016	(B) Effect of merger (*)	(A + B) Post merger 01/01/2017
Liabilities					
Non-current liabilities					
Payables to banks and other lenders	40,203	4,541	0	3,206	43,409
Derivative instruments	605	0	0	0	605
Payables for deferred taxes	1,324	341	0	341	1,665
Provision for post-employment benefits	561	0	0	0	561
Provisions for risks and charges	5,161	7	0	7	5,168
Trade and other payables	2,581	11	100	15	2,596
Non-current tax payables	221	0	0	0	221
Total non-current liabilities	**50,656**	**4,900**	**100**	**3,569**	**54,225**
Current liabilities					
Trade and other payables	10,191	816	3,738	4,167	14,358
Trade and other payables	1,162	0	0	0	1,162
Payables to banks and other lenders	27,243	297	0	297	27,540
Total current liabilities	**38,596**	**1,113**	**3,738**	**4,464**	**43,060**
Total liabilities	**89,252**	**6,013**	**3,838**	**8,033**	**97,285**
Total liabilities and equity	**374,210**	**11,365**	**4,776**	**8,155**	**382,365**

(*) Includes the adjusted amounts of Cascina Praga SIINQ S.p.A. and Redwood S.r.l., considering the elimination of intercompany items, the value of investments and related equity.

5.7 Introduction

Aedes SIIQ S.p.A. (“**Aedes**”, the “**Company**” or “**Parent Company**”), founded in 1905, was the first real-estate company to be listed on the Milan Stock Exchange (MTA:AE.MI) in 1924. The strategy of the Company, as a SIIQ/REIT from 1st January 2016, aims to create and maintain in the medium to long term a property portfolio for commercial use, which generates cash flows consistent with the SIIQ model. The recurring cash flow will be derived from both properties that are already owned, for retail and office purposes, currently revenue-generating or about to be marketed, as well as from areas that will be developed in-house for rented assets primarily for retail purposes.

In 2017, the Group continued to purchase rented assets and move further ahead with its development projects, aimed at implementing additional rented assets in the short and medium term, in accordance with the property company model adopted in its capacity as a SIIQ/REIT.
In light of the financial position and results of operations of the Company at 31st December 2017, the second reference year for verifying the parameters set by the Special Regime of SIIQs/REITs, the asset and profit requirements were met a year ahead of the legally-prescribed grace period.

In particular, the Company and the Group will continue to acquire properties and property portfolios that already generate revenue, located in Northern and Central Italy, and will finalize the construction of a new generation of shopping and leisure centers through the pipeline of developments already in the portfolio.

The financial statements are audited by Deloitte & Touche S.p.A., pursuant to art. 159 of Legislative Decree no. 58 of 24th February 1998.

The publication of the financial statements of Aedes S.p.A. SIIQ for the year ended 31st December 2017, was authorized by resolution of the Board of Directors on 21st March 2018.

BASIS FOR PREPARATION

The 2017 financial statements of the Parent Company Aedes SIIQ S.p.A. have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union, as well as with the provisions arising from art. 9 of Legislative Decree no. 38/2005. The IFRS also include all the revised international accounting standards (“IAS”) and all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), formerly the Standing Interpretations Committee (“SIC”).

The accounting and disclosure statements contained in this balance sheet have been prepared in compliance with IAS 1, pursuant to Consob Communication no. DEM 6064313 of 28th July 2006.

The financial statements have been prepared on a going concern basis. The Directors, in fact, have assessed that there are no uncertainties regarding the ability of the Company and the Group to operate as a going concern, even on the basis of estimates contained in the Explanatory Notes in the section “Main types of risk - Liquidity risk”, to which reference is made.

The risks and uncertainties relevant to the business are described in the dedicated sections of the Directors’ Report on Operations. The description of how the Company manages its financial risks, *inter alia*, those of capital and liquidity, are found in the paragraph Additional information on financial instruments and risk management policies herein these Explanatory Notes.

The financial statements have been prepared based on the conventional historic cost standard, except for the measurement of investment property at fair value and the financial assets and liabilities, including derivative instruments, in cases where the fair value method is applied.

With regard to the format of the financial statements, the Company opted to present the following types of financial statements.

Statement of financial position

The statement of financial position is presented with separate disclosures of the assets, liabilities and equity. In turn, assets and liabilities are shown in the financial statements based on their classification as current and non-current.

An asset/liability is classified as current when it satisfies one of the following criteria:

- it is expected to be realized/settled or is expected to be sold or used in the normal operating cycle, or
- it is held principally to be traded or
- it is expected to be realized/settled within twelve months from the balance sheet date.

In the absence of all three conditions, assets/liabilities are classified as non-current.

Lastly, a liability is classified as current when the entity does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

Income Statement

The income statement is presented in its classification by nature.

To provide a better understanding of the typical results of normal operations and of financial and tax management, the income statement shows the following interim results:

- operating profit;
- pre-tax profit;
- result for the year.

Comprehensive income statement

The comprehensive income statement includes all the changes in other comprehensive gains/(losses) for the year, generated by transactions other than those carried out with Shareholders and on the basis of specific IAS/IFRS accounting standards. The Company has chosen to present these changes in a separate statement to the income statement.
Changes in other comprehensive gains/(losses) are shown net of the relevant tax effects. The statement also provides separate evidence of the items that can be, or not be, subsequently reclassified in the income statement.

Statement of changes in equity

The following is the statement of changes in equity as required by international accounting standards, with separate disclosure of profit or loss for the year and other changes not recorded in the income statement, but directly to other comprehensive revenue/(loss) based on specific IAS/IFRS accounting standards.

Statement of cash flows

The statement of cash flows is divided into cash flow generating areas as required by international accounting standards, prepared according to the indirect method.

These financial statements have been prepared using the Euro as the reporting currency and all values are rounded to the nearest thousandth unless otherwise indicated.

The effects of transactions with related parties are shown in the income statement and statement of financial position, as well in as the relevant Explanatory Notes.

In preparing the financial statements at 31st December 2017, the same measurement criteria adopted for the financial statements at 31st December 2016 were used, except for the adoption of the new standards, amendments and interpretations in force as from 1st January 2017.

Accounting standards, amendments and IFRS interpretations applied as from 1st January 2017

The following accounting standards, amendments and IFRS interpretations have been applied by the Company for the first time as from 1st January 2017:

- On 29th January 2016, the IASB published "Disclosure Initiative (Amendments to IAS 7)" containing amendments to IAS 7. The document aims to provide clarification on how to improve disclosures on financial liabilities. Specifically, the amendments require entities to provide a disclosure that allows financial statements users to evaluate changes in liabilities arising from financing activities, including therein both changes arising from cash and non-cash changes. The amendments do not establish a specific format to use for disclosure. The amendments require an entity, however, to provide a reconciliation between the opening and closing balances for liabilities arising from financial activities. Entities need not provide comparative information relating to prior years. The adoption of these amendments had no impact on the Company's financial statements.

- On 19th January 2016, the IASB published "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)" containing amendments to IAS 12. The document aims to provide clarification on the recognition of deferred tax assets for unrealized losses in the measurement of available-for-sale financial assets under certain circumstances, and on the estimate of taxable income for future periods. The adoption of these amendments had no impact on the Company's financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union not yet mandatory to apply and not adopted in advance by the company at 31st December 2017

- On 28th May 2014, the IASB published IFRS 15 – Revenue from Contracts with Customers which, along with additional clarifications published on 12th April 2016, will replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard establishes a new model for revenue recognition, applicable to all of the contracts concluded with customers, except for those included in the scope of application of other IAS/IFRS standards such as leases, insurance contracts and financial instruments. The basic steps for the booking of revenue pursuant to the new model are:
  - identification of the contract with the customer;
  - identification of the performance obligations included in the contract;
  - pricing;
  - price allocation based on the performance obligations included in the contract;
  - the criteria for the recognition of revenue when the entity meets each performance obligation.

  The standard applies as from 1st January 2018. The amendments to IFRS 15 Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB in April 2016.

  The Directors, following their review of the potential impacts arising from the introduction of the standard, do not believe the application of IFRS 15 to have a material impact on the amounts booked under revenue and on the relating disclosures in the separate financial statements of the Company, since revenue originates mainly in lease rent, which is covered by IFRS 16, in revenue and margins from property sales, and in revenue from property services. The Company will adopt a simplified transition approach without stating comparative data.

- On 24th July 2014, the IASB published the final version of IFRS 9 – Financial instruments. The document includes the results of the IASB project aimed at superseding IAS 39:
  - it introduces new criteria for the classification and measurement of financial assets and liabilities (together with the assessment of non-substantial changes in financial liabilities);
  - with regard to the impairment model, the new standard requires losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39), using supportable information, available without undue cost or effort, and including historic, current and forecast data;

- it introduces a new hedge accounting model (broadening of the transaction types eligible for hedge accounting, changes in the accounting of forward contracts and options when included in a hedge accounting relationship, changes in the effectiveness test).

The new standard must be applied to financial statements beginning on or after 1st January 2018.
The following are the assessments of the potential impacts arising from the introduction of IFRS 9 in the separate financial statements of Aedes.

IMPAIRMENT

IFRS 9 introduces the credit risk model for financial assets based on the expected credit losses, while IAS 39 uses the incurred losses model. The new expected credit losses model (ECL) may result in earlier recognition of losses on financial assets compared to what would be recognized under IAS 39. The new model applies to assets measured at amortized cost, those measured for at fair value through other comprehensive income other from investments, commitments in providing loans and to guarantees, which under IAS 39 fell within the scope of IAS 37, and assets deriving from contracts with customers that fall within the scope of IFRS 15.
The Company has reviewed the rules for determining the deterioration of the credit worthiness of the counterparties and the measurement of expected losses over a 12-month period.
With regard to trade receivables from third parties, the Company will apply the simplified approach which estimates ECL on trade receivables using a provision matrix.
For the measurement of loans, intercompany receivables, other receivables, guarantees and cash and cash equivalents, the Company chose an approach based on the probability of default of the counterparties and the change in the credit risk of the counterparties.
Following the analysis, the impact from the introduction of the new impairment model is not material.

HEDGE ACCOUNTING

The aim of the new model introduced by IFRS 9 is to simplify hedge accounting, bringing it closer to the risk management activities and permitting the application of those rules to a high number of financial instruments that could qualify as hedges, as well as risk elements that could qualify as hedged items. The new standard does not cover macro hedges which are the subject of a separate IASB project.
Two approaches for first-time adoption are permitted under IFRS 9: i) use of the IFRS 9 chapter "General Hedge Accounting Model"; or ii) continued use of the hedge accounting rules under IAS 39 until the time when the IASB and the European Union have endorsed the new macro hedge accounting standard.
The Company will evaluate the possibility of applying the new rules for hedge accounting introduced by IFRS 9 as from 1st January 2018. Hedge accounting would be applied prospectively on the date of first application. Nevertheless, this aspect is currently being determined.

OTHER ASPECTS OF IFRS 9: AMENDMENTS TO LIABILITIES

The accounting treatment of the amendments to financial liabilities that do not result in the derecognition of a liability introduced by IFRS 9 was confirmed by the IASB in July 2017. In these cases it was established that only one rule for accounting exists that requires the recognition of a profit/loss in the income statement that corresponds to the change made to the amortized cost of the liability subject to amendment. The decision by IASB puts an end to the accounting practice (provided for in IAS 39) of distributing the profit or loss from the change over the contractual period of the changed liability through a prospective adjustment at the original effective interest rate.
Retrospectively applying, from 1st January 2018, the clarification to the accounting for changes in financial liabilities that do not result in derecognition (as they are not considered material) has no material impact on the Company.

- On 13th January 2016, the IASB published IFRS 16 – Leases, which will supersede IAS 17 – Leases, and the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
The new standard provides a new definition of a lease and introduces a criterion based on the control (right of use) of an asset to distinguish leases from service contracts, identifying the following distinguishing factors: identification of the asset, right to replace the asset, right to obtain substantially all economic benefits deriving from use of the asset, and right to direct the use of the asset underlying the contract.
The standard introduces a single lessee accounting model, by which an asset under a lease, including an operating lease, is recognized in assets with an offsetting financial liability. The model also provides the

possibility of not recognizing as leases those contracts regarding low-value assets and leases with a term of 12 months or less. The standard, instead, introduces no material changes for the lessor.
The standard applies as from 1st January 2019, but early adoption is allowed only for early adopters of IFRS 15 – Revenue from Contracts with Customers.
Regarding lease contract payables, apart from a number of immaterial short-term office equipment rentals, the Company has a lease arrangement for a property located in Milan currently used as the Group's head office, and for various car parking spaces. Lease rent payables under these contracts up to initial maturity amount (non-discounted values) to approximately Euro 3.0 million.
The Directors do not expect the introduction of the standard to have a material impact on the Company's booked equity and on the result for the year. The approach to adopt in the transition period will be defined in 2018.

Accounting standards, amendments and IFRS interpretations not endorsed yet by the European Union
At the date of these financial statements, the competent bodies of the European Union have not yet completed the endorsement process required for the adoption of the amendments and the standards described below.

- On 18th May 2017, the IASB issued IFRS 17 – Insurance Contracts, intended to supersede IFRS 4 - Insurance Contracts.
  The aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations deriving from insurance contracts issued. The IASB developed the standard to eliminate the inconsistencies and weaknesses of the existing accounting standards, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts, that an insurer holds.
  The Directors do not expect the Company's financial statements to be materially affected by the adoption of these amendments.

- On 20th June 2016, the IASB issued the document "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)" containing amendments to IFRS 2. The amendments provide a number of clarifications on the accounting for the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with a net settlement feature, and on the accounting for modifications to the terms and conditions of a share-based payment that change the classification from cash-settled to equity-settled. The amendments apply as from 1st January 2018.
  The Directors do not expect the Company's financial statements to be materially affected by the adoption of these amendments.

- On 8th December 2016, the IASB published "Annual Improvements to IFRSs: 2014-2016 Cycle", adopting the amendments to the standards in the context of the annual process for their improvement. The main amendments regard:
  - IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. The amendment is applicable at the latest for financial years beginning on 1st January 2018, and regards the deletion of a number of short-term exemptions under section E3-E7 of Appendix E of IFRS 1, as the benefit of such exemptions is considered outdated.
  - IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice. The amendment clarifies that the option for a venture capital organization or other entity classified as such (such as a mutual fund or similar entity) to measure investments in associates and joint ventures measured at fair value through profit or loss (rather than the equity method) is carried out for each single investment on initial recognition. The amendment applies as from 1st January 2018.
  - IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the scope of IFRS 12, specifying that the disclosures required by the standard, with the exception of the disclosures under sections B10-B16, apply to all interests that are classified as held for sale, held for distribution to owners, or as discontinued operations in accordance with IFRS 5. The amendment applies as from 1st January 2017; however, since the amendment is still awaiting endorsement by the European Union, it was not adopted by the Group at 31st December 2017.

  The Directors do not expect the Company's financial statements to be materially affected by the adoption of these amendments.

- On 8th December 2016, the IASB published "Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)". The purpose of the interpretation is to provide guidelines on foreign currency transactions when non-monetary advance consideration paid or received is recognized before recognition of the relating asset, expense or income. This document clarifies how an entity has to determine the date of the transaction and, consequently, the spot exchange rate to be used for foreign currency transactions, whose consideration is paid or received in advance.
  The interpretation clarifies that the transaction date is the earlier of:
  a) the date when the advance payment or advance receipt are recognized in the entity's financial statements; and
  b) the date when the asset, cost or revenue (or part of it) is recognized (with consequent reversal of the advance payment or the advance receipt).
  If there are numerous payments or amounts collected in advance, a transaction date must be identified for each one. IFRIC 22 applies as from 1st January 2018.
  The Directors do not expect the Company's financial statements to be materially affected by the adoption of these amendments.

- On 8th December 2016, the IASB published "Transfers of Investment Property (Amendments to IAS 40)" containing amendments to IAS 40. These amendments provide clarifications on the transfer of properties to, or from, investment properties. Specifically, an entity should reclassify a property into, or from, investment property only when there is an evident change in use of the property. This change must be tied to a specific event that has occurred and, thus, should not be limited to a change in Management's intentions for the use of the asset. These amendments apply as from 1st January 2018.
  The Directors do not expect the Company's financial statements to be materially affected by the adoption of these amendments.

- On 7th June 2017, the IASB published IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments. The document addresses the issue of uncertainty over income tax treatments.
  Under the document, an entity is required to reflect uncertainties in the determination of tax liabilities or assets in the financial statements only when the entity is likely to pay or recover the amount in question. Additionally, the document does not provide for any new disclosure requirements, stressing however that the entity should need to determine whether it will be necessary to provide disclosure on the Management's considerations on uncertainty from the accounting of tax, in accordance with IAS 1.
  The new interpretation applies as from 1st January 2019, but early adoption is allowed.
  The Directors do not expect the Company's financial statements to be materially affected by the adoption of these amendments.

- On 12th October 2017, the IASB issued the document "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". The document specifies that a debt instrument with a prepayment option could comply with the contractual cash flow characteristics ("SPPI" test), and could, therefore, be measured using the amortized cost method, or at fair value through other comprehensive income even when the "reasonable additional compensation" provided for in the event of prepayment is a "negative compensation" for the lender. The amendment applies as from 1st January 2019, but early adoption is allowed.
  The Directors do not expect the Company's financial statements to be materially affected by the adoption of these amendments.

- On 12th October 2017, the IASB issued the document "Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)". The document clarifies the need to apply IFRS 9, including the requirements on impairment, to other long-term interests in an associate or joint venture to which the equity method is not applied. The amendment applies as from 1st January 2019, but early adoption is allowed.
  The Directors do not expect the Company's financial statements to be materially affected by the adoption of these amendments.

- On 12th December 2017, the IASB published "Annual Improvements to IFRSs: 2015-2017 Cycle", adopting the amendments to the standards in the context of the annual process for their improvement. The main amendments regard:
  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business that is a joint operation, it must remeasure previously held interests in that business. This process is not provided for when joint control is obtained.
  - IAS 12 Income Taxes: the amendment clarifies that all the tax effects from dividends (including payments on financial instruments classified as equity) must be recognized consistently with the transaction that generated those profits (profit or loss, OCI or equity).
  - IAS 23 Borrowing costs: the amendment clarifies that borrowings that remain outstanding even after the related qualifying asset is ready for use or sale should be calculated as part of the borrowing costs.

  The amendments apply as from 1st January 2019, but early adoption is allowed.
  The Directors are currently assessing the possible impacts from the adoption of these amendments on the Company's financial statements.

- On 11th September 2014, the IASB published an amendment to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. The document was published to solve the current conflict between IAS 28 and IFRS 10.
  Under IAS 28, the gain or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or an associate in return for an investment in the latter is limited to the investment held in the joint venture or associate by other unrelated investors. By contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling interest in it, including in this case also the sale or contribution of a subsidiary to a joint venture or associate. The amendments require that for a sale/contribution of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller/contributor depends on whether the asset or subsidiary sold/contributed constitute a business under IFRS 3. If the assets or the subsidiary sold/contributed represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the investment still held by the entity shall be eliminated. To date, the IASB has suspended the application of this amendment.
  The Directors are currently assessing the possible impacts from the adoption of these amendments on the Company's financial statements.

5.8 Valuation Criteria

NON-CURRENT ASSETS AND LIABILITIES

Intangible fixed assets

An intangible fixed asset is recognized only if identifiable, verifiable and expected to generate future economic benefits and its cost can be reliably measured.
Intangible fixed assets are recorded at purchase cost, net of accrued amortization and impairment.
Amortization is recognized starting from when the asset is available for use or is capable of operating in the manner expected by Management, and is terminated at the date in which the asset is classified as owned for sale or is written off for accounting purposes.
Concessions, licences and trademarks are booked at their historic cost, net of accrued amortization and impairment. Amortization is recognized based on the lesser period between the contractual duration and the period within which the asset is expected to be used.
Software licences purchased are booked based on the costs incurred for the purchase and installation of the specific software, net of accrued amortization and impairment. These costs are amortized based on their useful life.
Costs associated with the development or maintenance of computer programmes are recorded as costs at the time when they are incurred. Costs for the development of computer software booked as assets are amortized over their estimated useful life.

Investment property

Investment property consists in property assets held to earn rental revenue or an appreciation of the invested capital, or as areas for development and building of properties in order to earn rentals.
Investment property can, therefore, be broken down as follows:

- **Properties for investment**: initially recognized at cost, including transaction costs. After initial recognition, this investment property is recorded at fair value, reflecting market conditions at the balance sheet date. Gains and losses deriving from the change in the fair value of investment property are recorded in the income statement for the year in which they occur;
- **Properties under development**: accounted for using the cost criterion until the fair value can be reliably determined on a continuous basis and, after that time, recorded at fair value with an equal treatment of properties for investment. It should be noted that, as indicated in Consob Recommendation no. DIE/0061944 of 18 July 2013, based on the procedure approved on 28th September 2016 by the Board of Directors, the Company has identified the approval of the town-planning agreement by the competent Body as the moment when the property projects under development are measurable at fair value in a reliable and continuous manner.

Investment property is initially recognized at cost, including transaction costs, and subsequently measured at fair value, recognizing in the income statement under “fair value adjustment” effects from changes in fair value of the investment property.
Investment property is eliminated from the financial statements when it is sold or permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising from the withdrawal or disposal of an investment property are recognized in the income statement in the year of the withdrawal or disposal. Reclassifications from/to investment property usually occur when there is a change of use. For investment property reclassifications to direct use (instrumental property), the reference value of the property for subsequent accounting is the fair value at the date of change in use. The property portfolio, including the portfolio held through subsidiaries, associates and joint ventures, is assessed every six months with the help of independent valuers with recognized and relevant professional qualification and recent experience in the location and features of the properties assessed.

Fair value represents the amount for which an asset could be exchanged or that would need to be paid to transfer the liability (exit price) in a free transaction between knowledgeable, independent parties. Consequently it is assumed that the company is a going concern and that neither party has the need to liquidate their assets in a forced sale on unfavourable conditions.

For the measurement of the individual properties, the type of tenant currently occupying the property, the division of insurance responsibilities and maintenance between the lessor and lessee and residual economic life of the property are taken into consideration.

Other tangible fixed assets

Other tangible fixed assets are booked at purchase or production cost, including directly attributable ancillary costs, net of depreciations and impairments accrued.
Depreciation is calculated starting from when the property is available for use or is potentially able to provide the associated economic benefits.
Depreciation is calculated on a straight-line basis at rates that reflect the useful life or, in the case of disposal, until the end of use.
Subsequent costs are included in the book value of the asset and are recognized as a separate asset, depending on the more appropriate method, only when it is probable that the future economic benefits associated to the item will benefit the Company and the cost of the item can be reliably valuated. All other costs for repairs and maintenance are recorded in the income statement during the year in which they are incurred.
The rates of depreciation, unchanged versus the prior year, are the following:

- Equipment 20% or, if lower, duration of the rental contract
- Other assets – Vehicles 25%
- Office equipment 20%
- Furniture and fittings 12%

Financial charges relating to the purchase are charged to the income statement unless they are directly attributable to the purchase, construction or production of an asset that justifies the capitalization, in which case they are capitalized.
The capitalization of financial charges terminates when all of the necessary activities to render the asset available for use are completed.
Leasehold improvements are classified under tangible fixed assets, on the basis of the cost incurred. The depreciation period corresponds to the lower of the remaining useful life of the tangible fixed asset and the residual duration of the lease contract.

Leases

The definition of a contractual agreement as a lease transaction (or containing a lease transaction) is based on the substance of the agreement and requires an assessment whether the fulfilment of the agreement itself depends on the use of one or more specific assets or if the agreement transfers the right of use to such as set. The verification that an agreement contains a lease is performed at the beginning of the agreement.
A lease contract is classified as finance or operating lease at the beginning of the lease. A lease contract that basically transfers to the Company all of the risks and benefits arising from ownership of the leased asset is classified as finance lease.
Finance leases are capitalized at the start date of the lease at the fair value of the asset leased or, if lower, at the current value of the instalments. The instalments are allocated between principal and interest in order to apply a constant interest rate on the remaining balance of the debt. Financial charges are recognized in the income statement.
Operating lease payments are recognized as costs in the income statement on a straight-line basis over the duration of the contract.

Investments

Investments in subsidiaries and associates are recorded at cost, adjusted in presence of impairment losses.
Investments in other companies are classified as available-for-sale financial assets and are measured at fair value, except for cases where a market price or the fair value cannot be determined; in this case, the cost method is used, adjusted for impairment losses.
Gains and losses arising from changes in fair value are recognized in the comprehensive income statement.

In the presence of an impairment loss or in the event of sale, gains and losses recognized up to such time within equity, are booked in the income statement.

Impairment of assets

At each reporting date, the Company reviews the book value of its property, plant, equipment, intangible assets and investments to determine whether there are any signs of impairment. If so, the recoverable amount of the assets is estimated to determine any impairment loss.

The verification consists in the estimate of the recoverable value of the asset comparing it with the relevant net book value.
If the recoverable amount of an asset is less than the net book value, the latter is reduced to its recoverable amount. This reduction constitutes an impairment loss, which is recognized in the income statement in the period in which it occurs.
The recoverable amount of an asset is the higher of the fair value of assets less costs to sell and value in use. The value in use is the current value of expected cash flows generated by the asset. In order to assess impairment, assets are analyzed starting from the lowest level for which the separate cash generating units can be identified.

Intangible and tangible fixed assets not subject to amortization/depreciation (indefinite useful life), as well as intangible fixed assets not yet available for use, are subject to an annual impairment test.
In the presence of an impairment reversal indicator, the recoverable value of the asset is recalculated and the book value is increased up to this new amount. The increase in the book value cannot, in any case, exceed the net book value that the fixed asset would have had should the impairment loss not have occurred.
Impairment losses of goodwill cannot be reversed.

With regard to property assets, assessments are performed for each individual property based on appraisals prepared by independent valuers. In this context, in consideration of the asset subject to assessment, the methods used are the following:

- conversion method: based on discounting at the appraisal date of the cash flows generated in the period in which the property transaction is executed; cash flows are the result of the difference between costs and revenue;
- direct comparison method: based on the comparison between the asset at hand and other similar assets subject to sale or currently offered on the same market or trade markets;
- discounted cash flow method: based on the present value of the potential future earnings of a property obtained by capitalizing revenue at a market rate.

For investments, given their nature (mainly property), the impairment assessments are developed on the basis of book equity appropriately adjusted in order to consider the fair value for the property units owned by each investee, taken from the above property appraisals, net of tax effects where applicable.

With regard to non-property investments, assessments are developed based on the values recoverable through use, determined based on the predictable developments in the activity prepared by Management.

Financial assets

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used for hedging purposes in order to reduce the interest risk rate variability.
All derivative financial instruments are measured at fair value, pursuant to IAS 39.
When the financial instruments have the characteristics to be booked in hedge accounting, the following accounting treatments apply:

- Fair value hedge – If a derivative instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability booked in the financial statements attributable to a particular risk that can impact on the income statement; the profit or loss deriving from the subsequent changes in the fair value of the hedging instrument are recognized in the income statement. The profit or loss of the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and are recognized in the income statement.

- Cash flow hedge – If a derivative financial instrument is designated to hedge the exposure to the variability of the future cash flows of an asset or liability booked in the financial statements or a highly probable transaction that could impact on the income statement, the effective portion of the profits or losses on the derivative financial instrument is recognized in equity. The cumulative profit or loss is removed from equity and recorded in the income statement in the same period in which the relevant operating effect of the transaction subject of the hedge is recognized. The profit or loss associated with a hedge (or part of a hedge) which has become ineffective is immediately booked in the income statement.

LOANS AND RECEIVABLES

These are non-derivative financial assets with fixed or determinable payments that are not listed on an active market and for which the Group does not intend to perform trading operations.
They are included in current assets except for the portion falling due beyond 12 months from the date of the Financial Statements, which is classified as a non-current asset.
Loans are initially recognized at cost as represented by the fair value of the amount received, net of the accessory costs of transacting the loan.
After this initial recognition, loans are recognized using the amortized cost accounting approach by applying the effective interest rate.
The amortized cost is calculated taking account of the issue costs and any discount or premium expected on settlement.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Under IAS 39, investments in companies other than subsidiaries and associates, consisting in non-current financial assets not held for trading, are classified as available-for-sale financial assets and are measured at fair value, except for cases where the fair value cannot be reliably determined; in this case, the cost method is used. Profit and loss resulting from value adjustments are recorded in a specific reserve of other comprehensive income/(loss) until they are either sold or become impaired. The moment the asset is sold, the comprehensive profit or loss previously recognized in other actuarial income/(loss) is charged to the income statement in the period.

Non-current assets held for sale

A non-current asset is classified separately as a non-current asset held for sale, if its book value will be recovered principally through a sale transaction, considered highly probable rather than through continuing use. For sale to be highly probable, an entity should start the activities leading up to the sale and complete the sale within a year of the classification date. The Company measures a non-current asset classified as held for sale at the lower of its book value and fair value less costs to sell.
Under IFRS 5, the figures relevant to assets held for sale are shown in two specific items of the balance sheet: “non-current assets held for sale” and “liabilities relevant to non-current assets held for sale”.
From the date on which such assets are classified as fixed assets held for sale, their depreciation is suspended.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated based on temporary differences between the carrying amount of assets and liabilities and their tax basis.
Deferred tax assets and liabilities are calculated based on the tax rates expected to be applicable at the time such deferments are realized, considering the rates in force or those expected to be issued.
They cannot be discounted back and are classified among non-current assets/liabilities.
Prepaid and deferred taxes are credited or charged to equity if they relate to items that are credited or charged directly to equity in the year or in prior years.
Prepaid taxes are booked only when recovery is probable in future years.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced in the measure that it is no longer probable that sufficient taxable income exists in order to allow the total or partial review of such assets.

Equity

Costs directly attributable to the issue of new shares or options are shown in equity.
The purchase cost of treasury shares is recorded as a reduction in equity; the effects of any subsequent transactions are also recognized directly in equity.

Provisions for risks and charges

Provisions for risks and charges relate to costs and charges of a definite nature and whose existence is certain or probable and that, at the reporting date, are indeterminable for amount or date of occurrence.
Allocations are recognized when: (i) it is probable that a present, legal or implicit obligation exists arising from past events; (ii) it is probable that the fulfilment of the obligation involves a cost; (iii) the amount of the obligation can be reliably estimated. Allocations are booked at the amount representing the best estimate of the amount that the company would rationally pay to extinguish the obligation or to transfer it to third parties at the reporting date. When the financial effect of timing is significant and the dates of payment can be reasonably estimated, the allocation is subject to discounting; the increase in the provision to reflect the passing of time is recognized in the income statement under "Financial incomes (charges)".
When the liability is relevant to tangible assets (i.e. land reclamation), the provision is recorded in offset to the asset to which it relates; the charging of the amount to the income statement takes place as amortization.
Provisions are periodically updated to reflect changes in cost estimates, timing of implementation and the discounting rates; changes in estimates of the provisions are charged to the same item of the income statement that previously reported the allocation or, when the liability is relevant to tangible assets (i.e. land reclamation), in offset to the asset to which it relates.
Potential liabilities are shown in the financial statements, represented by: (i) possible obligations (but not probable), deriving from past events, whose existence will be confirmed only on the occurrence, or less, of one or more future events not totally under the control of the company; (ii) present obligations arising from past events whose amount cannot be reasonably estimated or whose settlement is not likely to involve a cost.

Employee benefits

Post-employment benefits (severance indemnity) and other long-term benefits are subject to actuarial evaluations. Using this method, the liability booked in the financial statements represents the current value of the obligation, net of any other plan asset, adjusted for any actuarial losses or profits not booked.

Accordingly, for Group companies with less than 50 employees, the measurement of the liability continues to be performed by using the actuarial method called "projected unit credit method".
Following the amendment to IAS 19 "Employee Benefits", effective as from 1st January 2013, the Group recognizes the actuarial profits and losses immediately in the statement of other comprehensive profits/(losses) so that the entire net amount of the provisions for defined benefits (net of plan assets) are recorded in the consolidated statement of financial position. The amendment also provides that changes between one financial year to the next in the provision for defined benefit plans and plan assets must be broken down into three components: cost components relevant to the service period of the financial year must be recognized in the financial statements as "service costs"; the net financial charges, calculated applying the appropriate discount rate to the net balance of the provision for defined benefits net of the assets resulting at the beginning of the financial year, must be recognized in the income statement as such; the actuarial profits and losses that result from the remeasurement of the liabilities and assets must be recognized in the statement of other comprehensive profits/(losses).

Financial payables

Financial payables are initially recognized at fair value net of the transaction costs and subsequently measured at amortized cost using the effective interest rate method.
Loans are classified as current liabilities unless the Group does not have the unconditional right to defer the payment of the liability for at least 12 months after the reporting date.

Trade and other payables

Payables are initially recognized at fair value of the consideration to be paid and subsequently at amortized cost, which generally corresponds to the nominal value.

CURRENT ASSETS AND LIABILITIES

Inventory

Inventory consists in land - also to be built on -, properties under construction and renovation, completed properties, intended for sale to third parties and not to be kept in the owned portfolio in order to earn rental revenue.

Land to be built on is measured at the lower of the cost of acquisition and the corresponding presumed realization value, net of the relating estimated cost to sell. The cost is increased by incremental expenses and financial charges eligible for capitalization where the following conditions are met:

- Management has taken a decision to use, develop or directly sell the areas;
- costs are being incurred to obtain the asset;
- financial charges are being incurred.

Properties under construction and/or being renovated are measured at the lower of cost, including incremental expenses of their value and capitalizable financial charges, and the corresponding estimated realizable value.

Properties to be sold are measured at the lower of the cost and market value based on similar property transactions by area and type. The purchase cost is increased by any incremental costs incurred at the time of sale.

The property portfolio is assessed every six months with the help of an independent valuer with recognized and relevant professional qualification and recent experience in the location and features of the properties assessed.

Receivables booked in current assets, trade and other receivables

Receivables are initially recognized at fair value of the consideration to receive, which for this type generally coincides with the nominal value indicated in the invoice, adjusted (where necessary) to the estimated realizable value by provisions for the adjustment of the nominal values. Subsequently, receivables are measured using the amortized cost method, which generally coincides with the nominal value.

Payables are initially recognized at fair value of the consideration to pay and generally their amount is easily identified with a high degree of certainty. Subsequently, payables are measured using the amortized cost method calculated using the interest method.

Cash and cash equivalents

Cash and cash equivalents include: cash on hand, demand deposits with banks and other short-term highly liquid investments. Bank overdrafts are recognized as loans under current liabilities in the statement of financial position.

INCOME STATEMENT

Sale of assets

Revenue from the sale of assets is recognized only when all of the following conditions are met:

1. most of the risks and benefits relevant to the ownership of the assets have been transferred to the purchaser;
2. the effective control over the assets sold and the normal continuing level of activities associated to the ownership are terminated;
3. the value of revenue can be reliably calculated;
4. it is probable that the economic benefits stemming from the sale will be used by the company;
5. costs incurred or to incur can be reliably calculated.

In the case of property, these conditions are deemed normally fulfilled by the notarial deed.

Provision of services

Revenue from a transaction for the supply of services must be recognized only when it can be reliably estimated, by reference to the stage of completion of the transaction at the reporting date. The result of a transaction can be reliably estimated when all of the following conditions are met:

1. the amount of revenue can be reliably measured;
2. it is probable that the company makes use of the economic benefits of the transaction;
3. the stage of completion of the transaction at the reporting date can be measured reliably and the costs incurred for the transaction and the costs to incur for its completion can be reliably calculated.

With particular regard to lease contracts, should they provide financial incentives in favour of tenants for initial lease periods, these incentives are recognized on a straight-line basis over the contractual term as required by IAS 17.

Interest

Financial income is recognized in the income statement on an accruals basis, based on the interest accrued using the effective interest rate method. Financial charges incurred for investments in assets that normally require a specific amount of time in order for the asset to be ready for use or sale (qualifying asset pursuant to IAS 23 - Financial charges) are capitalized and amortized over the useful life of the asset class to which they relate. All of the financial charges are recognized in the income statement during the year in which they were incurred. Interest is recorded on an accrual basis that considers the effective yield of the asset.

Dividends

Dividends are recognized at the time when shareholders have the right to receive payment, which generally corresponds to the date of the Shareholders' Meeting called to resolve on dividend payout.

Current taxes

Current taxes are calculated on the basis of a realistic estimate of the taxes payable pursuant to the tax laws in force.
The estimated liability is recognized under "Tax payables". Tax assets and liabilities for current taxes are recorded at the amount expected to be paid/recovered to/from the tax authorities applying the rates and tax law in force or substantively approved at the balance sheet date.
As Parent Company, under art. 2359 of the Italian Civil Code, Aedes SIIQ S.p.A. has joined through joint exercise of the option with various subsidiaries, the Group taxation scheme pursuant to art. 117 and ensuing articles of Presidential Decree 917/86 (so-called national tax consolidation).
As is generally known, the national Tax Consolidation Scheme allows the calculation by Aedes SIIQ S.p.A. (consolidating company) of a single taxable base, resulting from the algebraic sum of the taxable amount or tax loss of each participating company. Joining the group taxation scheme is optional and, once exercised, is irrevocable binding the participating companies for three years. Subsidiaries of Aedes SIIQ S.p.A. which, for the 2017 tax year, opted for group taxation pursuant to art. 117 and ensuing articles of Presidential Decree 917/86, are: Aedes Project S.r.l. in liquidation, Novipraga SIINQ S.p.A., Pragaquattro Center SIINQ S.p.A., Praga Res S.r.l. former Praga Construction S.r.l., Pragasei S.r.l., Pragasette S.r.l. in liquidation, Pragaotto S.r.l., Pragaundici SIINQ S.p.A., S.A.T.A.C. SIINQ S.p.A. and Società Agricola La Bollina S.r.l., in addition to Cascina Praga SIINQ S.p.A. and Redwood S.r.l. (merged into Aedes SIIQ S.p.A. during the year) and Praga Service R.E. S.r.l. (merged into Praga Res S.r.l. during the year).
The operating effects arising from the national tax consolidation scheme are governed by appropriate regulations signed by the consolidating company and the consolidated companies; under these regulations:

1. subsidiaries, for financial years with positive taxable income, transfer to Aedes SIIQ S.p.A. the amount equal to the tax payable in respect of the above tax (subsidiaries with taxable income reduce their tax liability with their losses from prior years);
2. subsidiaries with negative taxable income are split up into those with profitability prospects that allow, with reasonable certainty, in the absence of national tax consolidation, the recognition of deferred tax assets associated with the negative taxable income on the financial statements, and those without such profitability prospects:
    - subsidiaries with negative taxable income in the first category receive from Aedes SIIQ S.p.A. compensation corresponding to the lower of the tax savings realized by Aedes SIIQ S.p.A. and the deferred tax assets associated with the negative taxable income on the financial statements; compensation, therefore, will be paid and will be due if and when the tax savings will be effectively realized by Aedes SIIQ S.p.A..;
    - subsidiaries with a negative taxable income in the second category are not entitled to any compensation.

Earnings per share

Basic earnings per share are calculated by dividing the total profit/loss for the period attributable to ordinary shareholders of Aedes SIIQ S.p.A. by the weighted average number of ordinary shares outstanding in the period, excluding treasury shares.
Diluted earnings per share are determined by adjusting the weighted average number of shares in circulation, to take account of all the potential ordinary shares, having a dilutive effect.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements and the related notes, in accordance with IFRS, requires the Directors to apply accounting standards and methods that, in certain circumstances, are based on difficult and subjective valuations and estimates based on historical experience and assumptions that are from time to time considered reasonable and realistic under the relating circumstances, which affect the recognized amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions are reviewed on a regular basis and the effects of any changes are reflected immediately in the income statement. It should be noted that the assumptions made on future performance are based on significant uncertainty. Therefore, future results may differ from estimates, and these could require even significant adjustments which cannot be predicted or estimated at this time.
Estimates and assumptions are used mainly in the assessment of the recoverable value of investments, the valuation of investment property and inventory, the recoverability of receivables, the fair value measurement of derivatives and the measurement of provisions for risks and charges.

With particular regard to the valuation of investment property (Euro 201,400 thousand at 31st December 2017) and real estate inventory (Euro 1,867 thousand at 31st December 2017), it should be noted that the assessment of fair value and the net realizable value, performed with the support of independent valuers, derives from variables and assumptions on the future performance, which may vary significantly and thus produce changes - in the book value of properties - which cannot be predicted or estimated at this time.
The main variables and assumptions marked by uncertainty are:

- net cash flows expected from the properties and relevant timing;
- inflation rates, discount rates and capitalization rates.

Similar considerations apply to the measurement of investments in subsidiaries (Euro 115,431 thousand at 31st December 2017), associates and joint ventures (Euro 38,245 thousand at 31st December 2017), whose equity reflects the fair value measurement of the investment property held.

See Note 30 - IFRS 13 for further information on the methods of determining the fair value of properties and the section “Independent valuer appraisals” in the Directors’ Report on Operations for information on the selection process of independent valuers.

INFORMATION ON THE SPECIAL REGIME OF LISTED PROPERTY INVESTMENT COMPANIES - SIIQ/REIT

The special regime of Listed Property Investment Companies (“SIIQ”) introduced and regulated by Law no. 296/2006 as subsequently amended, as well as by Ministerial Decree no. 174/2007 (the “Special Regime”), involves the exemption taxation for IRES and IRAP purposes of revenue arising from property leasing (so-called “tax-exempt operations”).
The rules governing the Special Regime was subject to amendments as a result of Decree Law no. 133/2014 (hereinafter “Decree Law no. 133/2014”), in force since 13th September 2014 and converted by Law no. 164 of 11th November 2014. For the application of the Special Regime, revenue from tax-exempt operations is intended to be taxed to Shareholders as a result of its distribution. Distribution must be decided (subject to revocation of the Special Regime) on approval of the financial statements in the year when revenue was generated. Specifically, the Special Regime entails the obligation, for each year, to distribute to shareholders, (i) at least 70% of profit from lease activities, possession of shares in SIIQ/SIINQ and qualified real-estate funds (such as resulting from the income statement of the relevant financial statements), if the total profit available for distribution is equal to or higher than the profit of tax-exempt operations, or (ii) at least 70% of total profit for the year available for distribution, if this is lower than profit from tax-exempt operations.
Through Legislative Decree no. 133/2014, a further compulsory system of profit distribution is set out, which complements the existing system, consisting in the obligation to distribute, in the two years following the year in which profit was realized, 50% of proceeds from net gains originating in the sale of properties held for lease, of SIIQ/SIINQ shares and qualified real-estate funds (which are treated as an investment company with fixed capital - SICAF - real-estate company).
Aedes SIIQ S.p.A. opted to join the regime in 2015, effective from 2016.

1. Information on compliance with the requirements to remain in the Special Regime

(1) Objective Requirements

Under art. 1, par. 121, of Law no. 296/2006, the predominant business of SIIQs/REITs must be property leasing. This activity is considered predominant if property held by way of ownership or other real right to be leased, SIIQ/SIINQ shares and qualified real-estate funds (or SICAF) represent at least 80% of the assets (asset parameter) and if, in each year, relating revenue represents at least 80% of the positive components of the income statement (profit parameter).
Failure to comply for three consecutive financial years with one of the two above parameters results in final termination of the special regime from the second of the three financial years; failure to comply with both parameters with regard to the same financial year results in termination of the special regime as from the financial year in relation to which the termination condition occurs.

The results of the calculation of the above parameters are shown below. Both the asset and the profit parameter have been met in 2017.

Asset parameter

(Euro)		31/12/2017
Aedes SIIQ S.p.A. - Asset parameter		
Value of properties to lease	(A)	188,570,000
Value of the properties involved in the development of the property complex	(B)	9,450,000
Shares in SIINQs and in qualified real-estate investments funds	(C)	139,652,572
Total numerator	**(D)=(A)+(B)+(C)**	**337,672,572**
Total assets	**(E)**	**441,604,476**
Items excluded from the denominator of the ratio:		
Carrying amount of the SIINQ offices		0
Cash and cash equivalents		(14,311,968)
Intragroup loans		(48,215,940)
Trade receivables from consideration yet to cash in		(14,243,127)
Assets from derivative instruments		(45,687)
Deferred tax assets		(1,056,106)
Tax receivables		(4,318,447)
Prepayments		(470,124)
Total adjustments	**(F)**	**(82,661,399)**
Total denominator: adjusted assets	**(G)=(E)+(F)**	**358,943,077**
Asset parameter	**(D)/(G)**	**94%**

The asset parameter, as shown in the table above, is the result of the ratio between:

- the numerator, amounting to Euro 337,673 thousand, which includes the carrying amount: (i) of properties intended for lease, which amount to Euro 188,570 thousand, (ii) of “properties under development” (Euro 9,450 thousand) and (iii) of shares in SIINQs and real-estate investment funds (shares held directly in the Petrarca, Leopardi, and Redwood real-estate funds, and indirectly in the Dante Retail real-estate fund (through Efir S.àr.l, as confirmed by the Agency’s reply to the application filed);

- the denominator, amounting to Euro 358,943 thousand, which includes total adjusted assets (Euro 441,604 thousand) to exclude, in accordance with the criteria set out in art. 6 of Ministerial Decree 174/2007: i) the carrying amount of the properties intended for the SIIQ offices (equal to zero); ii) the value of cash and cash equivalents (Euro 14,312 thousand); iii) the value of loans to Group companies (Euro 48,216 thousand); iv) the value of trade receivables deriving from both tax-exempt operations and, as clarified by Revenue Agency circular no. 8/E of 2008, from taxable operations (Euro 14,243 thousand). Additionally, in order not to affect the ratio with other items that are not directly related to tax-exempt or taxable operations, whose inclusion in the denominator of the ratio could alter the result of the assessment of the asset prevalence criterion, the following have been excluded: v) the value of assets from derivative contracts (Euro 45 thousand); vi) the value of deferred tax assets (Euro 1,056 thousand); vii) the value of tax receivables (Euro 4,318 thousand); viii) prepaid expenses from lease activities (Euro 470 thousand).

Profit parameter

(Euro)		31/12/2017
Aedes SIIQ S.p.A. - Profit parameter		
Rental payments and kindred revenue	(A)	10,416,942
Net margin on property sales	(B)	557,936
Dividends from SIINQs and qualified real-estate funds	(C)	0
Gains from investments forming financial fixed assets in other SIIQ/REIT or SIINQs	(D)	0
Total numerator	**(E)=(A)+(B)+(C)+(D)**	**10,974,878**
Total positive economic components	**(F)**	**38,731,135**
Items excluded from the denominator of the ratio:		
Revaluation of properties		(19,823,950)
Cost of sales from inventory		0
Income from chargeback of costs		(2,409,004)
Interest income on loans to subsidiaries and associates		(2,578,951)
Income from cost adjustments or related to hedges		(137,035)
Contingent assets, release of provisions and other reversals		(1,226,143)
Deferred tax assets and interest on tax receivables		(194,600)
Indemnification and insurance upward adjustments		(10,000)
Total adjustments	**(G)**	**(26,379,683)**
Total denominator: adjusted positive economic components	**(H)=(F)+(G)**	**12,351,452**
Profit parameter	**(E)/(H)**	**89%**

The profit parameter, as shown in the table above, is given by the ratio between:

- the numerator, amounting to Euro 10,975 thousand, includes revenue from: (i) rental revenue of properties held for such activity (investment property, properties under development and properties included in assets held for sale), which came to Euro 10,417 thousand in 2017. It should be noted that this amount is inclusive of revenue equivalent to rental revenue, such as compensation from tenants (but not also income from the chargeback of costs to tenants); (ii) gains from the sale of properties intended for lease, net of related and ancillary costs to sell, which in 2017 amounted to Euro 558 thousand; iii) dividends from shares in SIINQs and qualified real-estate funds, which came to zero in 2017;

- the denominator, totaling Euro 12,351 thousand. This amount corresponds to the total positive components of the income statement, equal to Euro 38,731 thousand, adjusted to exclude the revaluations of property, as per circular no. 8/E of 2008 from the Revenue Agency (Euro 19,824 thousand). Additionally, in order not to affect the ratio with other items that are not directly related to tax-exempt or taxable operations, whose inclusion in the denominator of the ratio could alter the result of the assessment of the economic prevalence criterion, the following have been excluded:
  - i) proceeds from chargebacks of costs such as, mainly, those related to personnel detachment, chargebacks of costs to tenants of properties to be leased (also excluded from the numerator of the profit parameter), chargebacks to subsidiaries of costs and financial charges incurred in the interest of the investee. The adjustments for these financial components totaled Euro 2,409 thousand;
  - ii) interest income on loans to subsidiaries and associates of Euro 2,579 thousand;
  - iii) income from cost adjustments or related to hedges of Euro 137 thousand;
  - iv) the cost of sales (equal to zero) attributable to revenue from the sale of properties recognized as inventory (included in the total positive economic components);
  - v) contingent assets, releases of provisions and other recoveries totaling Euro 1,226 thousand;
  - vi) income from deferred tax, tax consolidation and interest on tax receivables (Euro 195 thousand);
  - vii) Indemnification and insurance adjustments of Euro 10 thousand.

With regard, on the other hand, to the provisions of art. 1, par. 123, of Law 296/2006 and concerning the distribution obligation to Shareholders, in each financial year, of part of the accounting profit from tax-exempt operations amounting to (i) at least 70% of the amount, if the total profit available for distribution is equal to or higher than the profit from tax-exempt operations resulting from the income statement of the relevant financial statements or (ii) at least 70% of total profit available for distribution, if this is lower than profit from tax-exempt operations, it should be noted that the 2016 financial statements include a positive result from tax-exempt operations amounting to Euro 5,600 thousand, and a loss from taxable operations of Euro 2,422 thousand.
The positive result of tax-exempt operations is determined entirely from gains recognized in the income statement from the application of fair value; accordingly, the Company does not record profit from tax-exempt operations available for distribution.

As a result, in accordance with applicable law, with regard to the 2017 result, there was no obligation to distribute profit from tax-exempt operations.

Lastly, with regard to the additional distribution obligation set out in art. 1, par. 123-bis, of Law no. 296/2006, following the legislative amendments introduced by Decree Law no. 133/2014, of 50% of proceeds from net gains earned in the year from leased properties and from the sale of SIIQ/SIINQ shares or qualified real-estate funds (SICAFs), it should be noted that in 2017, the conditions for compulsory distribution were not met.

(2) Subjective requirements

Aedes SIIQ S.p.A., which draws up the financial statements in accordance with the international accounting standards, complies with the subjective requirements set out in the reference rules to remain in the Special Regime, as it is a: i) joint-stock company; ii) has its residence for fiscal purposes in Italy; iii) its shares are traded on the Italian stock exchange.
In 2017, there were no extraordinary transactions that took effect on the permanence requirements under the Special Regime.

(3) Requirements relating to the ownership structure

Based on the information held by the Company, there are no Shareholders who hold directly or indirectly, under art. 1, par. 119, of Law no. 296/2006 as amended by Law no. 164/2014, over 60% of voting rights in the Ordinary Shareholders' Meeting, and over 60% of profit-sharing rights.

2. Breakdown of economic components into tax-exempt and taxable operations and relating allocation criteria

The Company has divided the income statement at 31st December 2017 into tax-exempt and taxable operations.

Separate accounting has the purpose of identifying the operating results of tax-exempt and taxable operations by: i) allocating the relating economic components to each type of operations; ii) allocating to each a reasonable pro rata percentage of the "common" economic components (as they do not refer specifically to one of the two types of operations).

Mention should be made that Aedes SIIQ S.p.A, for the purpose of allocating these "common" components to tax-exempt (or taxable) operations, has adopted the abovementioned profit parameter, as it is considered the most appropriate percentage parameter for the allocation, since, net of the economic components that do not refer to any activity performed, it actually reflects the percentage impact of lease activities on overall activities carried out by the Company.

Mention should also be made that income generated by tax-exempt operations is governed by the regulations set out in art. 1, par. 119 and ensuing paragraphs, of Law no. 296/2006 and its implementing decree, while income generated by taxable operations is governed by the ordinary rules of taxation for IRES and IRAP purposes.

For each economic component, the following shows the main components within the scope of the two types of operations:

Net lease revenue: within this margin, revenue and costs have been divided into tax-exempt and taxable operations, based on the specific relevance of such components to the originating property.
Specifically; i) lease payments, chargebacks of costs to tenants, revenue from insurance indemnification and revenue "classed" as lease payments and, in any case, related to leasing; ii) costs for property management and maintenance, indirect taxes on lease contracts, municipal property tax and all costs related to leasing, are charged to (a) tax-exempt operations if they relate to property intended to be leased, understood as meaning properties included in the accounting categories of "investment property" (with the exception, for shopping centers, of the portion of revenue and costs referring, based on specific appraisals, to the rental of business units and not of the property component), to "properties under development" and to properties included in "assets held for sale", (b) to taxable operations if referred to the rental of "business units" (for the portion that does not refer to the property component, as identified by specific appraisals) and to "trading properties".

Losses and write-downs of receivables arising from leasing have all been recognized as taxable operations where relating to receivables from leasing arising in financial years prior to the Company's inclusion in the Special Regime of SIIQs/REITs.

Net revenue from services: includes revenue and costs specifically related to the property, administrative, accounting and tax services provided by Aedes SIIQ S.p.A. to subsidiaries. As such activity differs from the leasing activity that falls within the scope of tax-exempt operations, the economic components recognized within such margin are fully booked to taxable operations.

Operating costs: all the costs within this category are considered "common" to the two types of operations and, as such, distributed between each type, based on the profit parameter as calculated above.

Other revenue and income and other costs and charges: revenue and income within this category are specifically related to taxable operations, except for the release of exempt provisions for risks and bad debts and contingencies for the adjustment of tax-exempt costs. Revenue from tax-exempt operations is, in fact, limited only to rental revenue (included in the relevant statement item) and dividends from investments in SIINQs and in "qualified" real-estate funds, included within income from subsidiaries.

Other costs and charges are mainly costs "common" to the two types of operations and, as such, distributed between each type, based on the profit parameter as calculated above.

Profit/(Loss) from the sale of properties: the margins earned from the sale of properties to be leased, equal to the difference between selling price and relating carrying amount, net of brokerage costs and other costs directly related to the sale, are included in tax-exempt operations. On the other hand, the margins earned from the sale of "trading properties", equal to the difference between selling price and relating carrying amount, net of brokerage costs and other costs directly related to the sale, are included in taxable operations.

Revaluations/(Write-downs) of properties: include revenue and costs, recognized mainly following the fair value measurement of property assets, which are allocated to tax-exempt operations when referring to properties to be leased, or to taxable transactions when referring to "trading properties".

Net financial income/(charges): financial income is fully attributed to taxable operations, except as indicated below for financial income from hedges against interest rate fluctuations in loans (which are adjustment entries to financial charges).

The main categories of financial charges are explained below:

- financial charges relating to mortgage loans that are also structured in such a way as to bind, in various ways, the proceeds arising from property management to guarantee repayment of the loan are regarded as “specifically” related to tax-exempt and/or taxable operations, according to the assignment of the mortgage property to the tax-exempt or taxable activity. Consequently for loans that (i) are backed by properties held for leasing and which (ii) are at the same time accompanied by formats that bind the related proceeds from operations to guarantee repayment of the loan, the related financial charges have been attributed to tax-exempt operations, while for loans backed by trading properties, the related financial charges have been attributed to taxable operations;
- in cases where the loans giving rise to the abovementioned financial charges are hedged against interest rate fluctuations, the related hedging income and charges are attributed to tax-exempt or taxable operations, depending on how the hedged cash flows were recognized while any ineffective portion is recognized under income or charges ”common” to both types of operations;
- financial charges relating to short-term and medium/long-term loans that are not mortgage loans, nor backed by the abovementioned restrictions on proceeds to serve the related loan, such as bonds and short-term credit facilities, are considered costs that are “common” to the two types of operations and consequently allocated according to the profit parameter as calculated above.

Income and charges from subsidiaries, associates and other companies: all financial gains were entirely attributed to taxable operations, with the exception of income from investments in SIIQ/SIINQ and in qualified real-estate funds, which are recognized under tax-exempt operations in accordance with the law.

Charges from subsidiaries, associates and other companies are attributed to taxable operations, with the exception of charges arising from loans to investees, which are considered “common” costs, as the financial charges on short-term and long-term loans that are not mortgage loans, and are consequently attributed according to the profit parameter calculated above.

Taxes for the year: both current and deferred taxes for the year were recognized as taxable operations as they are not associated with tax-exempt operations.

As to revenue and charges that are adjustments to economic components accounted for in financial statements from years prior to inclusion in the Special Regime, or to contingencies representing costs and charges that would have been attributable to financial years prior to inclusion in the Special Regime, these components - irrespective of their classification within margins or of the other above items - are entirely attributed to taxable operations as they are closely related (through adjustment) to components accrued in financial years in which the entire income was taxable.

5.9 Main types of risk

The following are the main sources of risk and eligible hedging strategies.

STRATEGIC RISKS

Market risk

Market risk is the possibility that changes in the general performance of the economy, in the property market and in exchange rates may adversely affect the value of assets, including property assets, liabilities or expected cash flows.

The Company monitors the general performance of the economy through appropriate research and analyzes the performance of the property market every six months. The Company has a suitable strategy for diversifying its property portfolio, taking into account both geographical area and asset type. Additionally, the Company's strategy is mainly focused on high-quality assets located in major urban areas or leading business areas that have demonstrated high rental potential even during negative market cycles, due to demand being less volatile than for smaller assets in secondary cities.

To reduce vacancy risk, the Company markets to premium tenants, with long-term leases including appropriate safeguards. The risk of failing to re-lease vacant spaces is mitigated by the high quality of the Company's property assets.

OPERATING RISKS

Credit risk

Credit risk lies mainly in a client's inability to pay, regarding specifically tenants of owned assets. The Company is not affected by significant credit risk concentration, given the adequate diversification in terms of tenants.

The activity carried out to reduce credit risk exposure is based on an analysis of the composition of the client portfolio for each business area, to ensure adequate guarantee on the financial health of clients. Where deemed necessary, suitable guarantees are required for property transactions.

The maximum theoretical exposure to credit risk for the Company is represented by the book value of financial assets, in addition to the face value of guarantees given to third-party debts or commitments as set out in Note 28.

Most of the financial assets come from subsidiaries and associates. The financial assets consist mainly of receivables, whose collection is tied to the development/disposal cycle of the property assets of Group companies. Any write-downs of financial assets are made on an individual basis, and the write-downs are deemed to reflect the actual collection risk.

Lease risk

Lease risk lies in the possibility that owned properties remain vacant for extended periods of time, exposing the Company to a reduction in cash flows from rents and an increase in property costs.

The Company has adopted a policy based on ongoing relations with tenants, with a view to their retention.

The current property market situation does not rule out the possibility that certain tenants, on expiry of the contract or during the window of exercise of the so-called break option, may exercise the right to terminate the lease contract or demand renegotiation of the lease rent.

The Company monitors this risk by maintaining ongoing relations also with leading specialized real-estate agencies.

- **Occupational health and safety risk and environmental risk**

  The Aedes Group has taken all the necessary steps to safeguard health in the workplace, as required by law. For the purposes of the regulations, in 2017 no such accidents occurred as to involve serious or extremely serious injuries in the workplace, or deaths.
  The risks related to the occurrence of events that may cause effects on the environment or on the health of the population in the areas of operation of the Group are under the spotlight of public regulators and are the object of increasingly stringent legislation. In the year under review, the Aedes Group caused no damage to the environment for which it was found guilty, nor was it imposed fines or penalties for environmental offences or damage.
  The Company is strongly committed to preventing such risks and has adopted management systems capable of preventing and documenting the management approach to these issues.
  Additionally, the Company pays special attention to the aspects governing administrative, safety and environmental liability related to the risk of the perpetration of offences as set out in Legislative Decree 231/01.
  For further information, reference should be made to the two sections in the Sustainability Report: “3.1 Aedes Group approach to sustainability” and “3.4 Responsibility towards people”.

COMPLIANCE RISKS

- **Liability pursuant to Legislative Decree 231/01**

  The risk pursuant to Legislative Decree 231/01 is that the Company may incur penalties related to the regulations governing the liability of legal entities in the perpetration of offences pursuant to Legislative Decree 231/01.
  In order to reduce such risk, the Company has adopted an “Organizational Model” or “Model 231”, divided into a General Section, which presents targets, structural guidelines and implementation procedures of the Organizational Model, and a Special Section that provides an overview of the offences pursuant to Legislative Decree 231/01 considered relevant as a result of risk assessment, establishes rules of conduct for Model 231 recipients, and sets standards for the preparation of the procedures in the business areas involved.
  The Company has also drawn up a Code of Ethics that applies to the entire Group staff, who are committed to comply with and enforce the principles of the Code as part of their duties and responsibilities.
  The Company has additionally appointed a Supervisory Body with autonomous powers of initiative and control, tasked with overseeing the effectiveness, adequacy, operation and compliance with the Organizational Model, also seeing to its constant updating.
  For further information, reference should be made to the two sections in the Sustainability Report: “3.1 Aedes Group approach to sustainability”, as well as to the Report on corporate governance and ownership structure for 2017 prepared pursuant to art. 123-bis of the TUF.

- **Regulations for Listed Companies**

  The Company has the status of an issuer of securities listed on a regulated market and is, therefore, subject to specific regulations imposed by operational and oversight bodies.
  The Company pays the utmost attention to compliance with legal and regulatory requirements arising from the listed company status. Specifically, Legal Counsel and Investor Relations watch over the obligations towards supervisory and market management authorities, handling the market disclosure process. This process, which requires close coordination with the internal departments for the identification, verification and communication of administration, accounting and management data and information, is carried out in compliance with specifically defined internal regulations and under the supervision of the Chairman, Chief Executive Officer and the Financial Reporting Manager.

- **Liability pursuant to Law 262/05**

  The risk under Law 262/05 refers to the liability of the Financial Reporting Manager, pursuant to Law 262/05.
  In compliance with the regulatory provisions of Law 262 of 28th December 2005, “Investment Law”, the Company has adopted an internal administrative-accounting control system over financial reporting, with the purpose of (i) ascertaining that the Internal Control System currently in place is able to provide reasonable certainty on the true and fair view of income statement, balance sheet and cash flow information submitted; (ii) implementing adequate administrative-accounting procedures for the preparation of the financial statements and consolidated financial statements, as well as any other disclosure of a financial nature; (iii) guaranteeing

the effective application of the administrative and accounting procedures prepared over the period to which the above documents refer.

Tax Risk - SIIQ/REIT Regime requirements

The risk arising from the SIIQ/REIT Regime is that the Company may fail to comply with the asset and profit requirements to remain in such tax regime, with the consequent loss (in the event that such circumstance extends under the time limits of the law) of the status of SIIQ/REIT. The Company intends to closely monitor the associated tax risks; the assessments made on the tax model adopted are prepared with the assistance of select specialists. Separate accounting is used for taxable and tax-exempt operations. The structure is designed to carry out regular asset and profit tests in order to monitor compliance with legal requirements, including in the long term.

In light of the financial position and results of operations of the Company at 31st December 2017, the second reference year for verifying the parameters set by the Special Regime of SIIQs/REITs, the asset and profit requirements were met a year ahead of the legally-prescribed grace period. Regarding the asset test, in fact, the value of properties and areas owned and to be leased represents over 80% of the total asset value; regarding the profit test, the amount of revenue generated by the lease of property held through ownership or other property rights, and of gains on the sale of property intended for leasing represents over 80% of the positive components of the income statement.

FINANCIAL RISKS

Interest rate risk

The Company's exposure to interest rate risk originates mainly in medium and long-term financial payables. Floating-rate payables expose the Company to a cash flow risk; fixed-rate payables expose the Company to a fair value risk.

The Company's exposure to risk originates mainly in payables indexed to a floating market rate, with a resulting risk of cash flow fluctuations, since the changes in fair value are not booked in the income statement and do not present cash flows that are subject to market conditions.

Interest rate risks can be reduced by concluding derivative contracts. The instruments generally used are "plain vanilla" or "step-up" interest rate swaps, which convert the floating rate into a fixed rate, and/or caps, which set a cap on the interest rates payable by the Company, and/or collars, namely instruments represented by the purchase of a cap and sale of a floor, which set a floor and a cap on interest rates payable by the Company, allowing it to maintain a floating rate within the set range.

A derivative instrument is chosen by analyzing the individual investment projects and relevant loans, i.e. assessing the market conditions and the medium-long term strategy.

In order to reduce the Company's overall exposure to the interest rate risk, it had concluded a derivative contract on 4th November 2015 with the following characteristics:

Type	zero cost Collar
Effective date	31st December 2015
Maturity	31st December 2020
Notional	Euro 50 million, Bullet
Floating-Rate Euribor	3 months, act/360, quarterly
Cap strike	1.00%
Floor strike	0.00%

It should be noted that the instrument is not tied to a specific loan, but has the purpose of reducing the risk of an increase in interest rates on the Group's overall exposure. Accordingly, any changes in the period will be recorded in the income statement as period adjustments to fair value.

A Euro 30 million bond with a fixed interest rate of 5% was also issued in late December.

Exchange rate risk

At 31st December 2017, the Company has no exchange rate risk, since it has no exposure to currencies other than the Euro.

Liquidity risk

Liquidity risk is the risk that the Company and the Group fail to meet their payment obligations, due to the difficulty in raising funds (funding liquidity risk) or in liquidating assets on the market (asset liquidity risk). This may cause adverse effects on the financial performance in the event that the Company or the Group are forced to incur additional costs to meet their commitments or, in a worst case scenario, a condition of insolvency endangering business continuity.

The Company, through its Finance Department and ongoing supervision by the Parent Company's executive bodies, keeps a watchful eye on cash and short-term financial commitments. For this purpose, the Group monitors the liquidity risk by preparing a detailed periodical financial budget, considering a time horizon of at least one year and the effective management of property sales and assumption of financial commitments.

In identifying the criteria to be used for the preparation of these financial statements, the Company/Group has taken account of cash flows from operations and financial commitments affecting all Group companies for a period of 12 months from the date of the forthcoming approval of the financial statements for the year under review, including the planned investing activities and forthcoming maturity of specific loan agreements currently in place.

Based on the requirements arising from the financial budget, the Company has identified the main funding sources, deriving mainly from:

- refinancing activities of certain assets;
- disposal of certain assets;
- rescheduling of short-term credit lines.

Based on the information and the documentary evidence available at the date of preparing the financial statements at 31st December 2017, and on the progress of the initiatives currently in place with regard to the above funding sources, there are no significant risks of a possibility of not completing the actions according to the schedule and procedures set out in the financial budget. The Company and the Group's liquidity situation at the end of the twelve-month period is expected to be positive, despite acquisitions and investments in existing properties, to be financed using credit, via the market and/or by disposing of existing assets during the year. Accordingly, the Directors believe there are no uncertainties on the Company and Group's ability to meet their current and prospective financial obligations in the foreseeable future.

5.10 Explanatory notes to the Financial Position, Cash Flows and Income Statement

ASSETS

Note 1. Investment property

The changes in the year are as follows:

(Euro/000)	Investment property	Properties under development	Total
Balance at 31/12/2016			
Book value at 01/01/2016	**81,800**	**0**	**81,800**
Book value upon merger	12,600	1,800	14,400
Increases	35,123	0	35,123
Fair value adjustment	32,687	(50)	32,637
Book value at 31/12/2016	**162,210**	**1,750**	**163,960**
Balance at 31/12/2017			
Book value at 01/01/2017	**162,210**	**1,750**	**163,960**
Book value upon merger	1,830	9,320	11,150
Increases	15,157	1,428	16,585
Decreases	(1,860)	(3,058)	(4,918)
Fair value adjustment	14,613	10	14,623
Book value at 31/12/2017	**191,950**	**9,450**	**201,400**

For the purpose of preparing the financial statements at 31st December 2017, the Company tasked CB Richard Ellis Valuation S.p.A., a leading independent valuer, with evaluating its property portfolio.
In 2017, positive fair value adjustments in the value of investment property totaled Euro 14,623 thousand.
The increases attributable to the merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A. for a total of Euro 9,320 thousand, regard the following properties under development:

- Euro 7,040 thousand for the development project named “Praga Business Park”;
- Euro 1,560 thousand for the development project named “Lotto 10B”;
- Euro 550 thousand for the development project named “Lotto 11”;
- Euro 100 thousand for the development project named “Lotto 9c”;
- Euro 70 thousand for the development project named “Lotto 10B Nuovo Ramo Trasversale”.

The increases attributable to the merger by incorporation of the subsidiary Redwood S.r.l. for a total of Euro 1,830 thousand refer to the commercial licences relating to investment property formerly owned by the Company and located in Trezzano, Brescia, Rosà, Tavagnacco, La Spezia, Genola and Lamezia Terme.
During the year, the Company also:

- concluded, on 28th December 2017, the final agreement with the Obelisco Real-Estate Fund managed by InvestiRe SGR S.p.A. on the purchase of two tower buildings located in via Richard, Milan, that will increase its “Rented Asset” portfolio. The two properties, Torre C3 and Torre E5, cover a total area of over 15,000 m² of GLA and will be completely renovated. A framework agreement on one of the two Towers was signed with a leading multinational communication group listed on the NYSE, which envisages, inter alia, a 9-year lease for the whole Tower, renewable for a further 6 years, starting from completion of the renovation of the building. The overall investment, including directly attributable charges, came to Euro 15,095 thousand.

The further Euro 62 thousand classified among increases in investment property regard extraordinary maintenance carried out on the properties.

The increases relating to properties under development for Euro 1,428 thousand referred to the progress on Lotto 10B and Lotto 10B Nuovo Ramo Trasversale. The abovementioned Lotto 10B property, situated in Serravalle Scrivia for warehouse use, was sold in November for a total price of Euro 3,456 thousand, generating a gain of Euro 398 thousand.

In November, the Company completed the sale of two retail properties, equal to 10% of the non-core portion of the Ex Redwood portfolio: a vacant portion of a property located in Feroleto Antico (CZ) was sold for Euro 420 thousand, generating a gain of Euro 70 thousand, and another vacant property located in Bassano del Grappa (VI) was sold for Euro 1,600 thousand, with a gain of Euro 90 thousand.

The property transactions concluded, together with those completed with the purchase of new properties, are part of the Company and Group's strategy to increase the percentage of the revenue-generating or to-generate property portfolio, for office or retail purposes, which is able to guarantee long-term cash flows, and to sell the remaining part of the non-core portfolio.

It should be noted that a number of owned properties included as investment property are subject to mortgages, for a total value of Euro 167,000 thousand, to secure bank loans commented on in the specific section of liabilities. The value of mortgages securing loans relates in a few cases to the original amounts of the loans. In the event of sales of portions of properties or properties that are part of portfolios, with subsequent partial repayment of the loans, the mortgages originally registered on the entire properties package are maintained for the full amount, but encumber only on the residual properties or portions. On the latter's sale, the mortgages are fully cancelled. The book value of the properties encumbered by mortgages amounts to Euro 174,300 thousand.

Investment property acquired through finance leases was redeemed in advance in April 2017.

Note 2. Other tangible fixed assets

The changes in the year are as follows:

(Euro/000)	Specific plant	Industrial and commercial equipment	Other assets	Total
Opening balance 01/01/2016				
Historical cost	1,664	1,915	3,072	6,651
Depreciation fund	(1,664)	(68)	(2,498)	(4,230)
Net book value	**0**	**1,847**	**574**	**2,421**
Balance at 31/12/2016				
Net book value at 01/01/2016	0	1,847	574	2,421
Historical cost upon merger	0	0	3	3
Depreciation fund upon merger	0	0	(2)	(2)
Increases	0	238	104	342
Decreases	0	0	(2)	(2)
Amortization and depreciation in the year and impairment	0	(343)	(171)	(514)
Net book value at 31/12/2016	0	1,742	506	2,248
Final balance 31/12/2016				
Historical cost	1,664	2,153	3,072	6,889
Historical cost	(1,664)	(411)	(2,566)	(4,641)
Net book value	0	1,742	506	2,248
Balance at 31/12/2017				
Net book value at 01/01/2017	0	1,742	506	2,248
Historical cost upon merger	0	5	0	5
Depreciation fund upon merger	0	(3)	0	(3)
Increases	0	0	41	41
Decreases	0	0	(1)	(1)
Amortization and depreciation in the year and impairment	0	(365)	(64)	(429)
Net book value at 31/12/2017	0	1,379	482	1,861
Final balance 31/12/2017				
Historical cost	1,664	2,158	2,970	6,792
Historical cost	(1,664)	(779)	(2,488)	(4,931)
Net book value	**0**	**1,379**	**482**	**1,861**

SPECIFIC PLANTS

The item consists of improvements to the plants and is fully depreciated.

INDUSTRIAL AND COMMERCIAL EQUIPMENT

This item consists mainly of improvements to the current head office.

OTHER ASSETS

The item consists of furniture and fixtures for Euro 388 thousand and electronic machinery for Euro 94 thousand; motor vehicles and other assets are fully depreciated.

Note 3. Intangible fixed assets

The changes in the year are as follows:

(Euro/000)	Other
Opening balance 01/01/2016	
Historical cost	727
Depreciation fund	(663)
Net book value	**64**
Balance at 31/12/2016	
Net book value at 01/01/2016	64
Increases	16
Amortization and depreciation in the year and impairment	(26)
Net book value at 31/12/2016	54
Final balance 31/12/2016	
Historical cost	743
Depreciation fund	(689)
Net book value	**54**
Balance at 31/12/2017	
Net book value at 01/01/2017	54
Increases	47
Amortization and depreciation in the year and impairment	(33)
Net book value at 31/12/2017	68
Final balance 31/12/2017	
Historical cost	790
Depreciation fund	(722)
Net book value	**68**

The item includes mainly software licences, which increased in 2017 by Euro 47 thousand.

Note 4. Investments in subsidiaries

Changes in investments in subsidiaries in 2017 were the following:

(Euro/000)	Amounts at 31/12/2016	Merger transaction	Increases	Disposals and decreases	Other movements	(Write-down)/ Reversal	Reclassification to/(from) provisions	Amounts at 31/12/2017	% of investment
Investment									
Aedes Project S.r.l. in liquidation	44	0	4,146	(493)	0	0	(3,697)	0	
Bollina S.r.l.	38	0	0	0	0	0	0	38	70%
Cascina Praga SIINQ S.p.A.	5,510	(5,510)	0	0	0	0	0	0	
Petrarca Fund	10,672	0	1,651	0	0	0	0	12,323	100%
Redwood Fund	7,802	0	0	0	(423)	0	0	7,379	100%
Golf Club Castello di Tolcinasco SSD S.r.l.	0	0	700	(134)	0	0	(566)	0	
Novipraga SIINQ S.p.A.	8,503	0	0	0	13,698	5,247	0	27,448	100%
Praga Construction S.r.l. now Praga Res S.r.l.	401	0	0	0	212	(275)	0	338	100%
Pragafrance S.à.r.l.	0	0	0	0	0	(581)	581	0	75%
Pragaotto S.r.l.	0	0	3,700	0	0	(2,903)	(797)	0	100%
Pragaquattro Center SIINQ S.p.A.	4,162	0	6,971	0	0	(4,685)	0	6,448	100%
Praga Service Real Estate S.r.l.	0	0	330	0	(212)	0	(118)	0	
Pragasette S.r.l. in liquidation	0	0	0	0	0	(71)	71	0	60%
Pragaundici SIINQ S.p.A.	4,474	0	1,338	0	0	(178)	0	5,634	100%
Redwood S.r.l.	817	(817)	0	0	0	0	0	0	
Retail Park One S.r.l.	0	0	39,777	0	(39,777)	0	0	0	
S.A.T.A.C. SIINQ S.p.A.	37,336	0	17,716	0	0	436	0	55,488	100%
Sedea SIIQ S.p.A.	37	0	0	0	0	(161)	124	0	100%
Società Agricola La Bollina S.r.l.	180	0	400	0	0	(245)	0	335	100%
Total	**79,976**	**(6,327)**	**76,729**	**(627)**	**(26,502)**	**(3,416)**	**(4,402)**	**115,431**	

ADDITIONS, DISPOSALS AND REDUCTIONS AND OTHER CHANGES

On 23rd May 2017, the Company acquired 100% of Retail Park One S.r.l., owner of the Serravalle Retail Park, for a price of Euro 39,777 thousand, including directly attributable charges, from Herald Level 2 Lux Holding S.ar.l..
On 19th December 2017, Retail Park One S.r.l. distributed the reserve relating to capital contributions for a total of € 26,079 thousand to Aedes SIIQ S.p.A. (under "other changes").
On 20th December 2017, the deed on the merger by incorporation of Retail Park One S.r.l. into Novipraga SIINQ S.p.A. was entered into; the merger is effective as from 31st December 2017. Novipraga SIINQ S.p.A. was already owner of an area under development covering 18,279 m², the first phase of which is scheduled to open in spring 2018. Once completed, Novipraga SIINQ S.p.A. will own the major Retail Park in Northern Italy with a total GLA of 45,934 m².

On 21st December 2017, the Company purchased the remaining 35% of the share capital of the Petrarca Fund for the fully paid price of Euro 1,651 thousand, with the transfer of the interests held by IFM Italy Office Fund GmbH & Co. KG (20%) and by Ivg Logistics Holding S.A. (15%) to Aedes SIIQ S.p.A.. As a result, with 65% of the shares already held since September 2015, Aedes SIIQ now comes to own 100% of the Petrarca Fund, owner of 5 office properties in Milan and the Milanese suburbs, one of which is currently in the process of sale to third parties.

On 16th June 2017, the Company completed the sale to Milestone Servizi S.r.l. of 100% of the units held in the share capital of Golf Club Castello di Tolcinasco SSD S.r.l.. The realizable value from the sale of the units of the above investment amounted to Euro 10 thousand. The above sale resulted in a total loss of Euro 375 thousand recorded under "Income/Charges from investments".

On 31st July 2017, the Company waived the shareholder loan held in respect of the subsidiary Aedes Project S.r.l. in liquidation for Euro 493 thousand, already net of the write-down made in prior years; on 29th December 2017, the request for the removal of the company from the Company Register was filed on 22nd February 2018.

On 24th November 2017, the Redwood Fund reimbursed assets for Euro 423 thousand (under "other changes") to the only unitholder Aedes SIIQ S.p.A.. Following assignment on 28th December 2016 of 16 properties of the Fund, with the concurrent transfer of the relating total debt, the Redwood Fund is still owner of two properties. One of the two properties has an existing mortgage loan of Euro 1,491 thousand, allocated to Aedes as part of the assignment procedure, on which Redwood Fund remains, in any case, co-debtor.

On 1st August 2017, the subsidiary Praga Service Real Estate S.r.l. was merged by incorporation into the wholly-owned Praga Construction S.r.l. (under "Other changes"). On 1st August 2017, Praga Construction S.r.l. was renamed "Praga Res S.r.l.".

During the year, the Company waived shareholder loans and made capital contributions to subsidiaries for a total of Euro 30,455 thousand and Euro 700 thousand, respectively, to cover cumulative losses.

WRITE-DOWNS

Given the nature of the investments held, the Directors decided to carry out the impairment test, considering the unrealized gains from the owned property units of each investee, inferred from property appraisals prepared by independent third parties, net of taxes, where due. On the outcome of this test, also taking into consideration the estimated losses for the year, investments were written down for the amount of Euro 3,416 thousand.

Set out below are the main figures relating to investments in subsidiaries at 31st December 2017:

(Euro/000)	Registered office	Share capital	Equity	of which profit (loss) for the year	Value of production	% of investment	Share of equity	Impairment losses	Carrying amount
Investments									
Bollina S.r.l.	Serravalle (AL) Via Monterotondo n. 58 (**)	50	477(**)	250(**)	2,334(**)	70%	334	0	38
Petrarca Fund	Milan Vicolo S. Maria alla Porta 1 (1) (*)	n.a.	21,173(*)	(188)(*)	4,148(*)	65%	13,762	0	12,323
Redwood Fund	Milan Via G. Puccini 3 (2) (*)	n.a.	12,909(*)	112(*)	627(*)	100%	12,909	0	7,379
Novipraga SIINQ S.p.A.	Milan Via Morimondo 26, Ed. 18 (**)	100	27,432(**)	(360)(**)	1,186(**)	100%	27,432	5,247	27,448
Praga Construction S.r.l. (now Praga Res S.r.l.)	Milan Via Morimondo 26, Ed. 18 (**)	100	338(*)	(380)(**)	18,799(**)	100%	338	(275)	338
Pragafrance S.à.r.l.	Nice (France) 14, Rue Dunoyer de Séconzac (**)	52	(1,729)(**)	(736)(**)	(41)(**)	75%	(1,297)	(581)	0
Pragaotto S.r.l.	Milan Via Morimondo 26, Ed. 18 (**)	100	(1,295)(**)	(2,866)(**)	(136)(**)	100%	(1,295)	(2,903)	0
Pragaquattro Center SIINQ S.p.A.	Milan Via Morimondo 26, Ed. 18	54	6,448	(4,674)	0	100%	6,448	(4,685)	6,448
Pragasette S.r.l. in liquidation	Milan Via Morimondo 26, Ed. 18 (**)	10	(237)(**)	(120)(**)	0(**)	60%	(142)	(71)	0
Pragaundici SIINQ S.p.A.	Milan Via Morimondo 26, Ed. 18	100	5,634	(178)	105	100%	5,634	(178)	5,634
S.A.T.A.C. SIINQ S.p.A.	Milan Via Morimondo 26, Ed. 18	620	62,851	7,804	0	100%	62,851	436	55,488
Sedea SIIQ S.p.A.	Milan Via Morimondo 26, Ed. 18	50	(124)	(161)	0	100%	(124)	(161)	0
Società Agricola La Bollina S.r.l.	Serravalle (AL) Via Monterotondo n. 58 (**)	100	(93)(**)	(303)(**)	973(**)	100%	(93)	(245)	335
Total								**(3,416)**	**115,431**

(1) Registered office of the management company Sator Immobiliare SGR S.p.A..
(2) Registered office of the management company Castello SGR S.p.A..
(*) The value relates to the Company statements at 31/12/2017 adjusted by the appropriate alignment adjustments to the Group's principles.
(**) The value relates to the Company's statement of accounts at 31/12/2017 adjusted by the appropriate alignment adjustments to the Group's principles.

Investments which, as a result of the impairment test, showed a recoverable amount lower than the book value, were written down, while where the recoverable value was higher than the book value, a reversal was made, where possible, as outlined below:

- Novipraga SIINQ S.p.A.: as some of the reasons that led to the write-down in prior years no longer apply, the value of the investment was partly reversed in the year for Euro 5,247 thousand;
- Praga Res S.r.l. (former Praga Construction S.r.l.): the write-down amounted to Euro 275 thousand;

- Pragafrance S.ar.l.: the write-down amounted to Euro 581 thousand; as the investment had already been written off, a specific item was entered as a reduction of the financial receivables of the same amount (see Note 8);
- Pragaotto S.r.l.: the write-down amounted to Euro 2,903 thousand; the investment was written off for Euro 2,437 thousand and a specific item was entered as a reduction of financial receivables for Euro 466 thousand (see Note 8), followed in the year by reclassification from the provision for the write-down of financial receivables to the provision for the write-down of investments for Euro 1,263 thousand;
- Pragaquattro Center SIINQ S.p.A.; the write-down amounted to Euro 4,685 thousand;
- Pragasette S.r.l. in liquidation: the write-down amounted to Euro 71 thousand; as the investment had already been written off, a specific item was entered as a reduction of the financial receivables of the same amount (see Note 8);
- Pragaundici SIINQ S.p.A.; the write-down amounted to Euro 178 thousand;
- S.A.T.A.C. SIINQ S.p.A.; as the reasons that led to the write-down in prior years no longer apply, the value of the investment was reversed in the year for Euro 436 thousand;
- Sedea SIIQ S.p.A.: the write-down amounted to Euro 161 thousand; the investment was written off for Euro 37 thousand, a specific item was entered as a reduction of trade receivables for Euro 25 thousand (see Note 9), and a specific item in liabilities for Euro 99 thousand (see Note 15);
- Società Agricola La Bollina S.r.l.: the write-down amounted to Euro 245 thousand.

Note 5. Investments in associates and others

Changes in the investments in associates in the year are as follows:

(Euro/000)	Amounts at 31/12/2016	Increases/ (Decreases)	Other movements	(Write-down)/ Reversal	Amounts at 31/12/2017	% of investment
Investment						
Aedilia Nord Est S.r.l.	3,645	0	0	(90)	3,555	56.52%
Borletti Group SAM S.A.	0	181	0	0	181	40%
Efir S.à.r.l. - Dante Retail Fund	20,030	0	(1,000)	1,070	20,100	33.33%
Leopardi Fund	7,958	0	0	(3,126)	4,832	24.39%
InvesCo S.A.	0	2,829	0	0	2,829	40%
Pragasei S.r.l.	6,272	476	0	0	6,748	50.10%
Total	**37,905**	**3,486**	**(1,000)**	**(2,146)**	**38,245**	

On 26th October 2017, Aedes SIIQ S.p.A., on the one side, and BG Asset Management S.A. (Borletti Group), Dea Holding S.r.l. and VLG Capital S.r.l. on the other, following the agreements concluded last 12th September on the development and management of “The Market, San Marino Outlet Experience”, performed the acts set out for the Closing of the deal. Specifically, Aedes subscribed the share capital increases it was reserved for a total of Euro 2,688 thousand, for the acquisition of a 40% share in the capital of the companies appointed to act as General Partner of the project. The project will cover a total retail space of at least 25,000 m² of GLA; once the development is concluded, scheduled by 2020, the Market will host approximately 130 fashion brands and offer top-quality food & wine experience.

During the year, the Company waived shareholder loans to associates of Euro 476 thousand.

Other changes in the investment in Efir S.à.r.l. regard the distribution to unitholders of the share premium reserve.

The following is the key data at 31st December 2017 on investments in associates:

(Euro/000)	Registered office	Share capital	Equity	of which profit/ (loss) for the year	Value of production	% of investment	Share of equity	Impairment losses	Carrying amount
Investments									
Aedilia Nord Est S.r.l.	Milan Via Morimondo 26, Ed. 18	8,797(**)	6,292(**)	(158)(**)	449(**)	56.52%	3,556	(90)	3,555
Borletti Group SAM S.A.	1, Place d'Armes L - 1136 Luxembourg	0	0	0	0	40.00%	0	0	181
Efir S.à.r.l. - Dante Retail Fund	5, Allé Scheffer L - 2520 Luxembourg	22,279(*)	56,996(*)	1,625(*)	0(*)	33.33%	18,997	1,070	20,100
Leopardi Fund	Milan Vicolo S. Maria alla Porta, 1 (1)	n.a.(*)	19,811(*)	(12,921)(*)	1,947(*)	24.39%	4,832	(3,126)	4,832
InvesCo S.A.	1, Place d'Armes L - 1136 Luxembourg	0	0	0	0	40.00%	0	0	2,829
Pragasei S.r.l.	Milan Via Monte Napoleone, 29	100(**)	687(**)	196(**)	6,465(**)	50.10%	344	0	6,748
Total								**(2,146)**	**38,245**

(1) Registered office of the management company Sator Immobiliare SGR S.p.A..
(*) The value relates to the company statements at 31/12/2017 adjusted by the appropriate alignment adjustments to the Group's principles.
(**) The value relates to the company's statement of accounts at 31/12/2017 adjusted by the appropriate alignment adjustments to the Group's principles.

Investments which, as a result of the impairment test, showed a recoverable amount lower than the book value, were written down, while where the recoverable value was higher than the book value, a reversal was made as outlined below:

- Aedilia Nord Est S.r.l.: the write-down amounts to Euro 90 thousand;
- Efir S.à.r.l.: as some of the reasons that led to the write-down in prior years no longer apply, the value of the investment was partly reversed in the year for Euro 1,070 thousand;
- Leopardi Fund: the write-down amounts to Euro 3,126 thousand.

On 28th November 2017, a deed was signed for the sale to PR.IM. S.p.A., holder of the majority of the units, of the unit held by Aedes SIIQ in Roma Development S.r.l., as well as the financial receivables claimed by Aedes from the company, for the price of Euro 200 thousand, with equal effects in terms of profit or loss. The transaction is part of the strategy to sell non-strategic investments, which also saw completion of the sale in the year of Golf Club Castello di Tolcinasco SSD S.r.l..

Note 6. Receivables for prepaid taxes and payables for deferred taxes

Prepaid/deferred taxes are detailed in the table below:

(Euro/000)	31/12/2017			31/12/2016		
	Amount of temporary differences	tax effect (rate%)	Total	Amount of temporary differences	tax effect (rate%)	Total
Deferred tax assets:						
Tax losses	(4,400)	24.00%	(1,056)	(4,413)	24.00%	(1,059)
Total	**(4,400)**		**(1,056)**	**(4,413)**		**(1,059)**
Deferred taxes:						
Differences on property	1,304	27.90%	364	0	31.40%	0
Adjustments on equity investments	5,500	24.00%	1,320	5,517	24.00%	1,324
Total	**6,804**		**1,684**	**5,517**		**1,324**
Net deferred (pre-paid) taxes	**2,404**		**628**	**1,103**		**265**
Net			**628**			**265**

The contribution upon merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A. of payables for deferred taxes amounted to Euro 341 thousand.

The Company has accumulated losses, as emerging from the National and Worldwide Consolidation Form in 2017, totaling Euro 211,978 thousand, which increase to approximately Euro 212,144 thousand in the current year, due mainly to the tax losses from the management of taxable income of Società Agricola La Bollina S.r.l. and Pragaotto S.r.l..

The Company has, nonetheless, booked only a minimal amount of deferred assets for tax losses, also in consideration of the recommendations of Consob communication no. 0003907 of 19th January 2015, which states that the booking of a deferred tax asset for tax losses can be recognized "to the extent that future taxable profit will likely be available against which tax losses can be utilized", as provided by IAS 12.

Accordingly, as in the prior year, the Company has conservatively booked receivables for prepaid taxes for am amount of Euro 1,056 thousand, up to the 80% limit of deferred taxes and, therefore, restricting itself only to the offsettable portion in the year of the tax effect that would arise from the disposal of the gains from the assets, without considering the further 20% of such entry that would be equally relevant for tax purposes.

Note 7. Derivative instruments

(Euro/000)	31/12/2017		31/12/2016	
	Assets	Liabilities	Assets	Liabilities
Current portion				
fair value Cap	45	0	230	0
fair value Floor	0	283	0	605
Total	**45**	**283**	**230**	**605**

In 2015, two derivative contracts were entered into Banca Popolare di Milano S.c.ar.l. aimed at limiting the risk of an increase in the Group's total interest rate exposure. In preparing the financial statements, the Company appointed Ernst & Young S.p.A. as the independent valuer tasked with fair value measurements: at 31st December 2017, the measurements amounted to Euro 45 thousand in assets from the fair value of the "Cap" derivative contract, and to Euro 283 thousand in liabilities from the fair value of the "Floor" derivative contract.

The table below shows derivative financial instruments at 31st December 2017:

(Euro/000)	Type	Notional	Fair value	Contract deadline	Borrowing rate	Lending rate
Hedge provider						
Banca Popolare di Milano	Cap	50,000	45	31/12/2020	1%	3m Euribor q,A/360
Banca Popolare di Milano	Floor	50,000	(283)	31/12/2020	0%	3m Euribor q,A/360
Total		**100,000**	**(238)**			

The fair value of outstanding derivative financial instruments at 31st December 2017 can be classified in the level 2 hierarchy (fair value determined on the basis of valuation models that use observable market inputs).

Note 8. Financial receivables

(Euro/000)	31/12/2017	31/12/2016
Non-current receivables		
Receivables from subsidiaries	36,504	54,288
Receivables from associates	11,478	12,542
Receivables from others	48	55
Total	**48,030**	**66,885**
Current receivables		
Receivables from subsidiaries	234	304
Total	**234**	**304**
Total financial assets by maturity:		
Within 1 year	234	304
1-5 years	48,030	66,885
More than 5 years	0	0
Total	**48,264**	**67,189**

RECEIVABLES FROM SUBSIDIARIES

The balance of receivables from subsidiaries is broken down as follows:

(Euro/000)	31/12/2017							31/12/2016						Total	Change
Subsidiary	non-current			current			Total	non-current			current				
	Recei-vables	Prov. for bad debts	Total	Recei-vables	Prov. for bad debts	Total		Recei-vables	Prov. for bad debts	Total	Recei-vables	Prov. for bad debts	Total		
Aedes Project S.r.l. in liquidation	0	0	0	0	0	0	0	4,494	(3,697)	797	0	0	0	797	(797)
Cascina Praga SIINQ S.p.A.	0	0	0	0	0	0	0	1,335	0	1,335	0	0	0	1,335	(1,335)
Novipraga SIINQ S.p.A.	7,126	0	7,126	0	0	0	7,126	3,916	0	3,916	0	0	0	3,916	3,210
Praga Res S.r.l. (former Praga Construction S.r.l.)	649	0	649	0	0	0	649	1,178	0	1,178	0	0	0	1,178	(529)
Praga Service Real Estate S.r.l.	0	0	0	0	0	0	0	4,855	(118)	4,737	0	0	0	4,737	(4,737)
Pragafrance S.à.r.l.	4,036	(1,297)	2,739	0	0	0	2,739	5,010	(716)	4,294	0	0	0	4,294	(1,555)
Pragaotto S.r.l.	23,265	(466)	22,799	0	0	0	22,799	20,602	(1,263)	19,339	0	0	0	19,339	3,460
Pragaquattro Center SIINQ S.p.A.	267	0	267	0	0	0	267	6,009	0	6,009	0	0	0	6,009	(5,742)
Pragasette S.r.l. in liquidation	0	0	0	375	(141)	234	234	0	0	0	375	(71)	304	304	(70)
Pragaundici SIINQ S.p.A.	47	0	47	0	0	0	47	1,019	0	1,019	0	0	0	1,019	(972)
S.A.T.A.C. SIINQ S.p.A.	2,251	0	2,251	0	0	0	2,251	11,022	0	11,022	0	0	0	11,022	(8,771)
Società Agricola La Bollina S.r.l.	626	0	626	0	0	0	626	642	0	642	0	0	0	642	(16)
Total	**38,267**	**(1,763)**	**36,504**	**375**	**(141)**	**234**	**36,738**	**60,082**	**(5,794)**	**54,288**	**375**	**(71)**	**304**	**54,592**	**(17,854)**

Non-current financial receivables are contractually renewable or subordinate to the repayment of amounts due to lenders and therefore to be retained permanently.

Financial receivables due from subsidiaries generally relate to balances on current accounts, on which interest accrues in the year at a rate equal to the 3-month Euribor plus 3.75% and/or receivables from the transfer of taxes on taxable income as part of the tax consolidation scheme and Group VAT, including the related accrued interest.

2017 saw a decrease by Euro 17,854 thousand versus the prior year. The change is attributable mainly to the effects of the merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A. for (Euro 1,335) thousand, to new disbursements net of reimbursements for Euro 14,956 thousand, to waivers of Shareholder loans to subsidiaries for a total of (Euro 30,948) thousand, to write-downs in the year for (Euro 1,118) thousand, to VAT transferred by subsidiaries in connection with the Group VAT settlement procedure for (Euro 1,319) thousand, and accrued interest, net of collected interest for Euro 1,841 thousand. The provision for bad debt corresponds to the portion of write-down required as a result of the impairment test.

Mention should be made that Aedes SIIQ S.p.A., together with various subsidiaries, opted, for tax year 2017, for the specific VAT offsetting procedure provided by Ministerial Decree of 13th December 1979, containing the regulations for the implementation of the provisions pursuant to art. 73, last paragraph (so-called Group VAT settlement procedure). Here below is the list of the subsidiaries that participated in Group VAT settlement in 2017: Novipraga SIINQ S.p.A., Praga Res S.r.l. former Praga Construction S.r.l., Pragaotto S.r.l., Pragaquattro Center SIINQ S.p.A., Pragasette S.r.l. in liquidation, Pragaundici SIINQ S.p.A. and S.A.T.A.C. SIINQ S.p.A., in addition to Cascina Praga SIINQ S.p.A. (merged into Aedes SIIQ S.p.A. during the year) and Praga Service R.E. S.r.l. (merged into Praga Res S.r.l. during the year).

The book value of receivables from subsidiaries is deemed to approximate their fair value.

RECEIVABLES FROM ASSOCIATES

The balance of receivables from associates is broken down as follows:

(Euro/000)	31/12/2017			31/12/2016			Change
	non-current			non-current			
Associate	Receivables	Prov. for bad debts	Total	Receivables	Prov. for bad debts	Total	
Aedilia Nord Est S.r.l.	1,688	0	1,688	1,936	0	1,936	(248)
Alpe Adria S.r.l.	1	(1)	0	75	(1)	74	(74)
Leopardi Fund	0	0	0	38	0	38	(38)
Golf Tolcinasco S.r.l.	5	(5)	0	529	(4)	525	(525)
Pragasei S.r.l.	9,790	0	9,790	9,969	0	9,969	(179)
Trixia S.r.l.	0	0	0	10	(10)	0	0
Via Calzoni S.r.l. in liquidation	55	(55)	0	5,860	(5,860)	0	0
Total	**11,539**	**(61)**	**11,478**	**18,417**	**(5,875)**	**12,542**	**(1,064)**

Receivables from associates relate to loans granted at normal market conditions. The above receivables are contractually renewable or subordinate to the repayment of amounts due to lenders and therefore to be retained permanently.

The overall decrease by Euro 1,064 thousand is due mainly to the waivers of shareholder loans to associates for (Euro 476) thousand and to repayments for (Euro 311) thousand.

The significant change is attributable to the contract concluded on 15th December 2016 by Aedes SIIQ S.p.A. with Sator Immobiliare SGR S.p.A. and Rubattino 87 S.r.l., to lay down the arrangements for adjusting receivables and payables of Aedes SIIQ S.p.A. from and to associates through the Leopardi Fund; such an agreement, as amended on 22nd February 2017, provides for the offsetting of amounts, the transfer of properties and the assumption of the relating loan. The offsetting of receivables and payables became effective on the date of these financial statements. The transfer of properties is suspended on condition of the lenders' approval of Aedes's takeover of the debt arising from the properties subject to transfer, a condition to be fulfilled by 31st March 2018.

The book value of receivables from associates is deemed to approximate their fair value.

RECEIVABLES FROM OTHER COMPANIES

The balance of receivables from other companies is as follows:

(Euro/000)	31/12/2017			31/12/2016			Change
Other companies	Non-current receivables	Provision for bad debts	Total	Non-current receivables	Provision for bad debts	Total	
Roma Development S.r.l.	0	0	0	842	(842)	0	0
Total	**0**	**0**	**0**	**842**	**(842)**	**0**	**0**

As previously explained in Note 5, in the current year, the financial receivables claimed by Aedes from Roma Development S.r.l. were sold, together with the interest held in its share capital, to PR.IM. S.p.A..

RECEIVABLES FROM OTHERS BEYOND THE YEAR

The balance at year-end amounts to Euro 48 thousand and relates to security deposits for utilities and/or long-term rentals requested by contract. The contribution upon merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A. amounted to Euro 3 thousand.

The book value of receivables from others is deemed to approximate their fair value.

Note 9. Trade and other non-current receivables

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Receivables from others	0	243
Tax receivables	1,028	894
Provision for bad debts for tax receivables	(392)	0
Net tax receivables	**636**	**894**
Total	**636**	**1,137**

(Euro/000)	31/12/2017	31/12/2016
Tax receivables		
Receivables from the Revenue Agency for VAT	145	145
Receivables from the Revenue Agency for taxes	883	749
Non-current tax receivables	**1,028**	**894**

The non-current portion of tax receivables is made up of:

- Euro 243 thousand from the Company's share in the tax receivable claimed by Aedificandi S.r.l., liquidated in July 2014 (reclassified in the year from "Receivables from others");
- Euro 392 thousand from foreign tax shown in the National and Worldwide Consolidation Form of former Praga Holding Real Estate S.p.A., which can be carried forward for up to eight financial years; the receivable was written down in the year to adjust it to the fair value;
- Euro 159 thousand from the tax receivable claimed by Aedes Project S.r.l., liquidated in July 2017 and by its consortium companies Ravizza S.c.a.r.l. and Parco Grande S.c.a.r.l.;
- Euro 89 thousand from receivables for VAT paid in 2007 by Praga Holding Real Estate S.p.A. as a result of a fractional payment pending judgement.

During the year, tax receivables were reclassified from non-current to current for the amount of Euro 268 thousand. The item also includes the residual receivable (Euro 145 thousand) from VAT refunds requested by the subsidiary Pragatre SIINQ S.p.A., which will be reimbursed by the Revenue Agency when the disputes for 2006 VAT and 2008 IRES are settled.
The recoverability of these receivables was assessed with the help of the Company's tax consultants.

Note 9. Trade and other current receivables

(Euro/000)	31/12/2017	31/12/2016
Current		
Receivables from clients	12,009	6,527
Provision for bad debts from clients	(4,256)	(4,234)
Net receivables from clients	**7,753**	**2,293**
Receivables from subsidiaries	5,090	2,196
Provision for bad debts from subsidiaries	(25)	(23)
Net receivables from parent companies	**5,065**	**2,173**
Receivables from associates	1,301	3,371
Provision for bad debts from associates	(198)	(2,102)
Net receivables from associates	**1,103**	**1,269**
Net receivables from other related parties	250	511
Net receivables from parent companies	72	32
Receivables from others	24	22
Tax receivables	3,682	9,885
Accrued income and prepaid expenses	470	231
Total	**18,419**	**16,416**

The book value of trade and other receivables is deemed to approximate their fair value.

RECEIVABLES FROM CLIENTS

Receivables from clients for a net amount of Euro 7,753 thousand consist of amounts due from tenants and clients of services for Euro 12,009 thousand, shown net of a provision for impairment of Euro 4,256 thousand.
The overall net increase of Euro 5,460 thousand is mainly attributable, for Euro 4,216 thousand, to the consideration that has yet to be collected and is deposited in an escrow account in favour of the Company, relating to the sale of Lotto 10B and, for Euro 866 thousand and Euro 43 thousand respectively, to the contribution upon merger by incorporation of the subsidiaries Redwood S.r.l. and Cascina Praga SIINQ S.p.A..

CHANGES IN PROVISION FOR BAD DEBTS

(Euro/000)	From clients	From subsidiaries	From associates	Tax	Total
Changes in provision for bad debts					
Balance at 31/12/2016	**(4,234)**	**(23)**	**(2,102)**	**0**	**(6,359)**
Release	0	0	761	0	761
Provisions	(21)	(25)	0	(392)	(438)
Reclassifications	(1)	23	1,143	0	1,165
Utilization	0	0	0	0	0
Balance at 31/12/2017	**(4,256)**	**(25)**	**(198)**	**(392)**	**(4,871)**

The breakdown by maturity of trade receivables, equal to the sum of receivables from clients, receivables from subsidiaries, receivables from associates, receivables from other related parties and receivables from the Parent is shown in the following table:

(Euro/000)	Falling due	Overdue by						Total
Ageing of trade receivables		Within 1 month	30-60 days	61-90 days	91-180 days	181-360 days	Over 360 days	
Gross Value	3,330	630	4,242	500	3,946	1,486	4,588	18,722
Provision for bad debts	(6)	0	0	0	(6)	(231)	(4,236)	(4,479)
Net trade receivables	**3,324**	**630**	**4,242**	**500**	**3,940**	**1,255**	**352**	**14,243**

RECEIVABLES FROM SUBSIDIARIES

(Euro/000)	31/12/2017				31/12/2016				Change
Subsidiary	Trade	Other	Prov. for bad debts	Total	Trade	Other	Prov. for bad debts	Total	
Aedes Project S.r.l. in liquidation	0	0	0	0	55	72	0	127	(127)
Bollina S.r.l.	0	0	0	0	2	0	0	2	(2)
Cascina Praga SIINQ S.p.A.	0	0	0	0	47	40	0	87	(87)
Redwood Fund	0	0	0	0	356	0	0	356	(356)
Golf Club Castello di Tolcinasco SSD S.r.l.	0	0	0	0	23	0	(23)	0	0
Novipraga SIINQ S.p.A.	599	0	0	599	102	2	0	104	495
Praga Res S.r.l. (former Praga Construction S.r.l.)	1	1	0	2	398	45	0	443	(441)
Praga Service Real Estate S.r.l.	0	0	0	0	568	34	0	602	(602)
Pragafrance S.à.r.l.	0	0	0	0	90	0	0	90	(90)
Pragaotto S.r.l.	254	5	0	259	53	2	0	55	204
Pragaquattro Center SIINQ S.p.A.	64	0	0	64	41	0	0	41	23
Pragasette S.r.l. in liquidation	12	0	0	12	0	0	0	0	12
Pragaundici SIINQ S.p.A.	958	9	0	967	31	10	0	41	926
S.A.T.A.C. SIINQ S.p.A.	3,159	3	0	3,162	202	0	0	202	2,960
Sedea SIIQ S.p.A.	25	0	(25)	0	0	0	0	0	0
Società Agricola La Bollina S.r.l.	0	0	0	0	23	0	0	23	(23)
Total	**5,072**	**18**	**(25)**	**5,065**	**1,991**	**205**	**(23)**	**2,173**	**2,892**

Receivables from subsidiaries originate mainly in the provision of management services, enhancement and transformation of property assets or projects (asset management), administrative, accounting, tax, economic and financial coordination services (advisory and administrative-financial services), general, legal-corporate and EDP services, the chargeback of serviced areas of the registered offices, and costs incurred in the year in the name and on behalf of the subsidiaries.

The increase by Euro 2,892 thousand is attributable mainly to the sale of trade and other receivables by subsidiaries (mainly S.A.T.A.C. SIINQ S.p.A., Novipraga SIINQ S.p.A. and Pragaundici SIINQ S.p.A.) to Aedes SIIQ for Euro 9,375 thousand, of which (Euro 5,730) thousand settled through the current account held with the above subsidiaries. Other receivables for (Euro 1,513) thousand accrued in the prior year and claimed by the Company from subsidiaries were settled through the current account in the year under review.

The contribution upon merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A. amounted to (Euro 87) thousand.

RECEIVABLES FROM ASSOCIATES

(Euro/000)	31/12/2017			31/12/2016			
Associate	**Receivables**	**Prov. for bad debts**	**Total**	**Receivables**	**Prov. for bad debts**	**Total**	**Change**
Alpe Adria S.r.l.	7	0	7	59	0	59	(52)
Aedilia Nord Est S.r.l.	11	0	11	9	0	9	2
F.D.M. S.A.	0	0	0	49	(49)	0	0
Leopardi Fund	1,092	(198)	894	5	0	5	889
Galileo Ferraris 160 S.r.l.	0	0	0	473	(461)	12	(12)
Pival S.r.l.	22	0	22	10	0	10	12
Pragasei S.r.l.	0	0	0	35	0	35	(35)
Rubattino 87 S.r.l.	0	0	0	1,492	(454)	1,038	(1,038)
Rubattino Ovest S.p.A.	0	0	0	777	(688)	89	(89)
The Market Propco S.r.l.	169	0	169	0	0	0	169
Trixia S.r.l.	0	0	0	12	0	12	(12)
Via Calzoni S.r.l. in liquidation	0	0	0	450	(450)	0	0
Total	**1,301**	**(198)**	**1,103**	**3,371**	**(2,102)**	**1,269**	**(166)**

This item originated mainly in the supply of services, as previously explained.
The balances have remained virtually unchanged versus the prior year.
Mention should be made of the offsetting in the year of receivables and payables claimed by Aedes SIIQ S.p.A. from associates through the Leopardi Fund, as set out in the agreement concluded in December 2016. As a result of this agreement taking effect, the above receivables were adjusted to the values set out in the agreement referred to previously and therefore resulted in a reversal of Euro 761 thousand being recorded.

The contribution upon merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A. amounted to Euro 44 thousand.

RECEIVABLES FROM OTHER RELATED PARTIES

The item consists mainly, for Euro 249 thousand, of the residual receivable (of which Euro 198 thousand cashed in during the current year) from Sator Immobiliare SGR S.p.A. from the sale in November 2016 to Sator Immobiliare SGR S.p.A. of 100% of the share capital of Aedes Real Estate SGR S.p.A..

RECEIVABLES FROM PARENT COMPANIES

This item originated in the provision of administrative and corporate coordination services to the Parent and in the chargeback of costs incurred in the year in the name and on behalf of Augusto S.p.A..

RECEIVABLES FROM OTHERS

The balance is broken down as follows:

(Euro/000)	31/12/2017	31/12/2016
Receivables from others		
Advances to suppliers	1	0
Other	23	22
Current receivables from others	**24**	**22**

The contribution upon merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A. amounted to Euro 2 thousand.

TAX RECEIVABLES

(Euro/000)	31/12/2017	31/12/2016
Tax receivables		
Receivables from the Revenue Agency for VAT	1,511	1,647
Receivables from the Revenue Agency for taxes	2,171	8,238
Current tax receivables	**3,682**	**9,885**

In addition to the Group VAT receivable of Euro 699 thousand, the Company still has a VAT receivable prior to inclusion in Group VAT amounting to a residual Euro 812 thousand, following use in the year of Euro 700 thousand to offset tax payables paid in instalments and/or other payables to the Revenue Agency and local authorities. The contribution upon merger by incorporation of the subsidiary Redwood S.r.l. amounted to Euro 273 thousand.
The current portion of tax receivables comprises mainly:

- Euro 804 thousand for IRES receivables arising under the Aedes SIIQ S.p.A. tax consolidation scheme;
- Euro 537 thousand from unused IRAP receivables arisen in prior years;
- in 2017, the sum of Euro 268 thousand was reclassified from non-current to current relating to the receivable booked, as a result of the non-deduction of IRAP, in the amount allowed under the law in prior years (art. 6, par. 1, of Decree Law no. 185 of 29th November 2008, converted, following amendments, by Law no. 2 of 28th January 2009, which introduced partial deductibility, for income tax purposes, of the regional tax on productive activities); a procedure has been opened to claim a refund of the receivable;
- Euro 226 thousand for residual receivables for an IRES and IRAP refund claimed in 2012 by the Company and the companies participating in the national tax consolidation scheme;
- Euro 156 thousand for IRES receivables of Aedes SIIQ S.p.A..

The recoverability of these receivables was assessed with the help of the Company's tax consultants.

Refunds received in the year from the Revenue Agency amounted to Euro 6,346 thousand, in addition to interest accrued of Euro 190 thousand relating to the receivable for the substitute tax under L.266/2005, arising in 2010, of Mercurio S.r.l., merged by incorporation into Galileo Ferraris 160 S.r.l. former Aedilia Sviluppo 1 S.r.l., and transferred by the latter to the parent company Aedes SIIQ S.p.A. as part of the national tax consolidation scheme.
The contribution upon merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A. amounted to Euro 16 thousand.

ACCRUED INCOME AND PREPAID EXPENSES

(Euro/000)	31/12/2017	31/12/2016
Accrued income and prepaid expenses		
Deferred income on property management	70	43
Prepayments for sureties	41	2
Other deferred income	359	186
Current accrued income and prepaid expenses	**470**	**231**

The contribution upon merger by incorporation of the subsidiaries Redwood S.r.l. and Cascina Praga SIINQ S.p.A. amounted to Euro 8 thousand and Euro 3 thousand, respectively.
Prepaid expenses consist of costs related to properties for Euro 70 thousand, bank and surety commissions for Euro 41 thousand, maintenance fees/leasing of electronic machinery, membership fees and subscriptions for Euro 120 thousand, and sundry insurance premiums of Euro 239 thousand paid in advance but relating to future years. Euro 460 thousand will be recognized within 2017 and Euro 10 thousand subsequently.

Note 10. Inventory

(Euro/000)	31/12/2017	31/12/2016
Property initiatives in progress	1,867	187
Finished products (Properties)	0	0
Total	**1,867**	**187**

(Euro/000)	Property initiatives in progress
Balance at 31/12/2016	187
Contribution upon merger	1,680
Decreases	0
Write-downs	0
Balance at 31/12/2017	**1,867**

The item changed during the year only as a result of the merger.

Note 11. Cash and cash equivalents

(Euro/000)	31/12/2017	31/12/2016
Cash on hand	3	4
Bank and postal deposits	11,207	2,883
Term current accounts	3,102	962
Total	**14,312**	**3,849**

The contribution upon merger by incorporation of the subsidiaries Redwood S.r.l. and Cascina Praga SIINQ S.p.A. amounted to Euro 1,797 thousand and Euro 17 thousand, respectively.
Cash and cash equivalents increased by Euro 10,463 thousand versus the situation at end 2016. Short-term restricted current accounts are held for credit facilities and guarantees granted by financial institutions.
The credit risk related to cash and cash equivalents is limited as the counterparties are major domestic and international banking institutions.
For a clearer picture of the changes in cash and cash equivalents, see the statement of cash flows.

EQUITY

Note 12. Equity

The changes in the year are as follows:

(Euro/000)			Altre riserve					
	Share capital	Treasury shares	Merger reserve	Legal reserve	Other for capital increase	Retained earnings/ (losses carried forward)	Result for the year	Total
01/01/2016	**212,945**	**(266)**	**(3,637)**	**2,231**	**48,705**	**8,297**	**566**	**268,841**
Allocation of 2015 result				28		538	(566)	0
Treasury shares held		(1,189)				6		(1,183)
Profit for the year							17,313	17,313
Actuarial (gains)/losses on post-employment benefits						(13)		(13)
Total comprehensive profit						(13)	17,313	17,300
31/12/2016	**212,945**	**(1,455)**	**(3,637)**	**2,259**	**48,705**	**8,828**	**17,313**	**284,958**

(Euro/000)			Altre riserve					
	Share capital	Treasury shares	Merger reserve	Legal reserve	Other for capital increase	Retained earnings/ (losses carried forward)	Result for the year	Total
01/01/2017	**212,945**	**(1,455)**	**(3,637)**	**2,259**	**48,705**	**8,828**	**17,313**	**284,958**
Allocation of 2016 result				866		16,447	(17,313)	0
Merger surplus			122					122
Treasury shares held		1,441				188		1,629
Profit for the year							3,178	3,178
Actuarial (gains)/losses on post-employment benefits						(11)		(11)
Total comprehensive profit						(11)	3,178	3,167
31/12/2017	**212,945**	**(14)**	**(3,515)**	**3,125**	**48,705**	**25,452**	**3,178**	**289,876**

SHARE CAPITAL

At 31st December 2017, the share capital, fully subscribed and paid in, amounts to Euro 212,945,601.41, divided into 319,803,191 ordinary shares, with no par value.

(Euro/000)	Number of ordinary shares	Number of special shares "C"	Value of ordinary shares	Value of special shares "C"	Value of treasury shares	Total value
Amounts at 01/01/2016	319,803,191	0	212,945	0	(266)	212,679
Amounts at 31/12/2016	319,803,191	0	212,945	0	(1,455)	211,490
Amounts at 31/12/2017	**319,803,191**	**0**	**212,945**	**0**	**(14)**	**212,931**

The table below summarizes the changes in the treasury shares reserve:

	No. shares	Amount in Euro	Average carrying amount in Euro
Final balance 31/12/2015	**539,000**	**265,976**	**0.49**
Purchase of treasury shares 2016	2,969,000	1,192,612	0.40
Liquidity provider	(8,000)	(4,156)	0.52
Final balance 31/12/2016	**3,500,000**	**1,454,432**	**0.42**
Sale of treasury shares 2017	(3,500,000)	(1,454,432)	
Liquidity provider	30,000	13,806	0.46
Final balance 31/12/2017	**30,000**	**13,806**	**0.46**

The purchase/sale of treasury shares in the year relates exclusively to the liquidity provider.

In 2017, no. 3,500,000 Aedes ordinary shares were sold, held in portfolio at 31st December 2016, producing a positive effect on equity of Euro 191 thousand. At 31st December 2017, Aedes held 30,000 ordinary shares to support liquidity provider activities, which had a negative impact of Euro 3 thousand on equity.

The allocation of the 2016 result to "Legal reserve" and to "Retained earnings" was resolved by the Shareholders' Meeting on 27th April 2017.

Reserves in equity at 31st December 2017 are available except as noted in the table below:

(Euro/000)	Amount	Eligibility for use	Available portion	Summary of utilizations made in past three years	
Nature/description				to cover losses	for other reasons
Share capital	**212,945**				
Treasury shares	**(14)**				
Equity reserves:					
Other reserves for capital increase	48,705	A,B,C	48,705		
Merger surplus	(3,515)				
Income reserves:					
Legal reserve	3,125	B			
Retained earnings (losses carried forward)	25,452	A,B,C	25,452		
Total	**286,698**		**74,157**	-	
Non-distributable portion			**3,529**		
Remaining distributable portion			**70,628**		

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

LIABILITIES

Note 13. Payables to banks and other lenders

Payables to banks and other lenders are broken down as follows:

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Bonds	43,992	0
Payables for Shareholders' contributions	9,852	0
Payables to other lenders	0	15,413
Mortgage loans	69,552	23,970
Lines of credit	0	820
	123,396	**40,203**
Current		
Bonds	145	0
Payables for Shareholders' contributions	86	0
Payables to other lenders	0	1,314
Mortgage loans	3,295	18,642
Lines of credit	876	7,287
	4,402	**27,243**
Total	**127,798**	**67,446**

(Euro/000)	within 1 month	from 1 to 3 months	from 3 to 12 months	1 to 5 years	over 5 years	Total
Amounts at 31/12/2017						
Total payables to banks	122	895	3,154	63,451	6,101	73,723
Total	**122**	**895**	**3,154**	**63,451**	**6,101**	**73,723**

(Euro/000)	within 1 month	from 1 to 3 months	from 3 to 12 months	1 to 5 years	over 5 years	Total
Amounts at 31/12/2017						
Total payables to other lenders	182	0	49	53,844	0	54,075
Total	**182**	**0**	**49**	**53,844**	**0**	**54,075**

The table below shows the breakdown of net financial debt prepared in compliance with Consob Communication DEM/6064293 of 28th July 2006:

(Euro/000)	31/12/2017	31/12/2016
A. Cash on hand	14,312	3,849
B. Other cash and cash equivalents	0	0
C. Securities held for trading	0	0
D. Total cash and cash equivalents (A) + (B) + (C)	**14,312**	**3,849**
E. Current financial receivables	**0**	**0**
F. Current payables to banks	(4,171)	(25,929)
G. Current portion of non-current financial liabilities	(145)	0
H. Other current financial payables	(86)	(1,314)
I. Current financial debt (F)+(G)+(H)	**(4,402)**	**(27,243)**
J. Net current financial debt (I) + (E) + (D)	**9,910**	**(23,394)**
K. Non-current payables to banks	(69,552)	(24,790)
L. Bonds issued	(43,992)	0
M. Other non-current financial payables	(10,135)	(16,018)
N. Non-current financial debt (K) + (L) + (M)	**(123,679)**	**(40,808)**
O. Net financial debt (J) + (N)	**(113,769)**	**(64,202)**

The table below shows the reconciliation of net financial position figures shown in the Directors' Report on Operations with the above table:

(Euro/000)	31/12/2017	31/12/2016
Net financial debt included in the Directors' Report on Operations	(113,486)	(63,597)
Other non-current financial payables from derivative contracts	(283)	(605)
Net financial debt included in the Explanatory Notes	**(113,769)**	**(64,202)**

Set out below is a reconciliation of the changes in current and non-current financial debt with monetary and non-monetary items being shown separately:

(Euro/000)	31/12/2016	Non-cash movements		Cash movements		31/12/2017
		Financial charges (accrued)	Changes in scope	Financial charges (paid/ received)	Changes in payables to banks and other lenders	
Current and non-current payables to banks and other lenders	67,446	5,475	3,503	(5,442)	56,816	127,798
Derivative financial instruments	605	(322)				283
Gross financial debt	**68,051**	**5,153**	**3,503**	**(5,442)**	**56,816**	**128,081**

There were no overdue and unpaid financial obligations at 31st December 2017.

BONDS

On 12th April 2017, Aedes SIIQ S.p.A. issued a non-convertible bond of Euro 15,000,000.00, finalized on 20th April 2017, of which Euro 5 million subscribed on 18th December 2017.
The unlisted and unrated bond has the following characteristics:

- maturing in Q4 2018, it may be extended for an additional 18 months at the Company's discretion;
- 3-month Euribor rate + 5% spread.

Subsequently, on 18th December 2017, the Company issued a bond with a value of Euro 30,000,000.00 aimed at professional and institutional investors through Banca Profilo, which acted as arranger and placement agent, and subscribed to a portion of the bond. On 19th December, the bond was admitted to trade on the ExtraMOT PR market, with the following characteristics:

- 18 months extendable for a further 18 months at the discretion of the issuer;
- fixed rate of 5% for the first 18 months and, if extended, of 5.5% for the following 18 months.

PAYABLES FOR SHAREHOLDERS' CONTRIBUTIONS

On 20th April 2017, the Company concluded a shareholder loan agreement of Euro 10,000 thousand with the controlling shareholder Augusto S.p.A., expiring on 31st October 2018, with the possibility of extending the loan for a further 18 months, at a 3-month Euribor rate plus a 5% spread. The shareholder loan concluded with Augusto S.p.A. confirms the major shareholders' commitment to supporting the further growth of the Company.

MORTGAGE LOANS

The contribution upon merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A. amounted to Euro 3,503 thousand.
Additionally, during the year the Company took out a mortgage for a total of Euro 56,000 thousand, of which Euro 52,000 thousand granted in 2017, Euro 38,431 thousand drawn down to repay existing loans at 31st December 2016 and to finance the renovation of collateral assets and for new property investments.

PAYABLES TO OTHER LENDERS

In April 2017, the payable towards Unicredit Leasing for the property in Via Agnello 12, Milan, was repaid in advance.

The breakdown of payables to banks and other lenders is shown in the following table:

(Euro/000)	Project/property assets	Short-term debt	Short-term debt	Short-term debt	Long-term debt	Total debt	Due	Mortgage on properties/ guarantees	Financial covenants	Compliance with covenant
Type of loan agreement		Within 1 month	from 2 to 3 months	from 4 to 12 months						
Mortgage Loan	Santa Vittoria d'Alba (CN) - PHASE B	0	109	306	6,091	6,506	30/11/2030	16,000	LTV≤80 %	Yes
Mortgage Loan	Santa Vittoria d'Alba (CN) - PHASE B	18	5	54	321	398	30/04/2023	1,000	LTV≤80 %	Yes
Mortgage Loan	Serravalle Scrivia (AL) - Via Novi	0	178	130	2,951	3,259	01/03/2024	8,000	LTV≤80 %	Yes
Mortgage Loan	Portfolio	0	114	574	50,352	51,040	11/04/2020	112,000	LTV≤55%; ICR≥2.5; DSCR≥1.25; DSCR Borrower ≥1.1	Yes(*)
Mortgage Loan	Portfolio	0	195	1,585	8,346	10,126	31/12/2021	30,000	LTV≤50%; ICR≥1.3; DSCR≥1.3	Yes
Mortgage Loan	Rome	0	27	0	1,491	1,518	31/12/2021	30,000	LTV≤50%; ICR≥1.3; DSCR≥1.3	Yes
TOTAL LOANS WITH PROPERTIES GRANTED AS SURETY		**18**	**628**	**2,649**	**69,552**	**72,847**				
Hot Money	n.a.	104	255	505	0	864	31/08/2018	Unsecured	n.a.	n.a.
Bank overdraft	n.a.	0	11	0	0	11	Committed	Unsecured	n.a.	n.a.
Bank overdraft	n.a.	0	1	0	0	1	01/03/2018	Unsecured	n.a.	n.a.
Total lines of credit		**104**	**267**	**505**	**0**	**876**				
Bonds	n.a.	96	0	0	14,789	14,885	30/04/2020	Unsecured	n.a.	n.a.
Bonds	n.a.	0	0	49	29,203	29,252	20/12/2020	Unsecured	Yes	Yes
Total bonds		**96**	**0**	**49**	**43,992**	**44,137**				
Payables for Shareholders' contributions		86	0	0	9,852	9,938				
Total payables for Shareholders' contributions		**86**	**0**	**0**	**9,852**	**9,938**				
Total gross debt at 31/12/2017		**304**	**895**	**3,203**	**123,396**	**127,798**				

(*) At 31st December 2017, the historic borrower DSCR ratio had not been met. This does not constitute a relevant event given the applicability of the remediation mechanism that can be triggered under the contract.

The liquidity and market risk analysis is shown in Note 32.

Note 14. Payables for employee severance indemnity

(Euro/000)	31/12/2017	31/12/2016
Payables for severance indemnity		
Severance indemnity	896	561
	896	**561**
Provisions under the income statement for:		
Service costs	223	177
Interest costs	11	10
Post-employment benefits IAS	**234**	**187**

There were no overdue and unpaid payables for employees at 31st December 2017.

The final balance reflects the current value of the Company's obligations towards employees for severance indemnity, calculated based on the legislative provisions in force and collective labour agreements and underlying actuarial dynamics. The provision for severance indemnity in the income statement is classified as service costs for Euro 223 thousand, under personnel expenses, and as interest costs for Euro 11 thousand, under financial charges.

Under IAS 19R, actuarial gains and losses on employee severance indemnities (Euro 11 thousand) are recognized under other comprehensive income and are permanently excluded from the income statement.

The change in the composition of severance indemnity is shown below:

(Euro/000)	
Balance at 01/01/2016	**488**
Portion accrued and posted to the income statement	187
Indemnities paid	(33)
Actuarial (gains)/losses under equity	13
Transfers to supplementary pension funds	(94)
Balance at 31/12/2016	**561**
Portion accrued and posted to the income statement	234
Indemnities paid	(28)
Transfers (to)/from Group companies	221
Actuarial (gains)/losses under equity	11
Transfers to supplementary pension funds	(103)
Balance at 31/12/2017	**896**

The actual and average number of employees at 31st December 2017 and at 31st December 2016, divided by category, is respectively as follows:

Qualification	31/12/2017	31/12/2016
Executives	7	7
Managers/Employees	38	28
Total	**45**	**35**

Qualification	2017	2016
Executives	6.8	7
Managers/Employees	33.9	27.9
Total	**40.6**	**34.9**

The workforce increased in the year from 35 to 45 units. 5 employees were made redundant (1 executive) and 8 were hired (2 executives); following transfer of contract, 2 executives were transferred to Group companies and 9 employees (1 executive) were transferred from Group companies.

Under IAS 19, payables from severance indemnity are recognized according to the accrued benefits method using the Projected Unit Credit Method, based on the following actuarial assumptions:

ECONOMIC-FINANCIAL ASSUMPTIONS

1. Technical annual discounting rate 1.30%;
2. Annual inflation rate 1.50%;
3. Total annual salary increase rate 2.50%;
4. Annual Severance Indemnity increase rate 2.63%.

With regard to the discounting rate, the reference to measure the above parameter was the iBoxx Eurozone Corporates AA 10+ index with a duration calculated on the average residual permanence of the collective subject to assessment at 31st December 2017.

DEMOGRAPHIC ASSUMPTIONS

1. Probability of death: determined by the General State Accounting Office denominated RG48, split up by gender.
2. Probability of disability: split up by gender, adopted in the INPS model for 2010 projections. These probabilities were built starting from the distribution by age and gender of the pensions in force at 1st January 1987 effective from 1984, 1985, 1986 relevant to the staff of the credit line of business.
3. Retirement age: for active employees, achievement of the first pensionable requirements valid for the Mandatory General Insurance was assumed.
4. Probability of leaving employment for reasons other than death, an annual frequency of 10.00% was considered.

Sensitivity analysis

The sensitivity analysis, carried out in scenarios of upward or downward movement of the average annual discount rate of half a point, showed no significant changes from the booked liability.

Note 15. Provisions for risks and charges

(Euro/000)	Balance at 31/12/2016	Contribution upon merger	Increases/ Decreases booked to income statement	Utilizations	Reclassifications	Balance at 31/12/2017
Risks on investments	543	0	99	0	(543)	99
Provision for contractual charges	417	0	(98)	0	0	319
Provision for contractual risks	205	0	(63)	(42)	0	100
Provision for tax-related risks	1,429	7	398	(204)	0	1,630
Provision for future charges	2,567	0	(280)	(85)	0	2,202
	5,161	**7**	**56**	**(331)**	**(543)**	**4,350**

The table below shows the breakdown and changes in the provision for risks:

(Euro/000)	Balance at 31/12/2016	Increases	Reclassifications	Balance at 31/12/2017
Golf Club Castello di Tolcinasco SSD S.r.l.	543	0	(543)	0
Sedea SIIQ S.p.A.	0	99	0	99
Risks on investments	**543**	**99**	**(543)**	**99**

At 31st December 2017, the items forming the provision for risks consist in:

- Euro 99 thousand from the investment in Sedea SIIQ S.p.A.;
- Euro 319 thousand to cover contractual obligations mainly from the disposal of investments;
- Euro 100 thousand for existing disputes on properties sold in prior years;
- Euro 1,630 thousand for tax disputes and/or tax assessment notices, of which Euro 7 thousand for the tax dispute on the incorporated entity Cascina Praga SIINQ S.p.A.;
- Euro 2,202 thousand for future charges, which relate mainly to the existing dispute with Fih SA; further details are found in the Directors' Report on Operations.

Note 16. Trade and other payables

The following table summarizes the situation of trade and other payables at 31st December 2017:

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Payables to subsidiaries	1,044	754
Payables to associates	0	1,472
Other payables	121	355
	1,165	**2,581**
Current		
Payables to suppliers	5,291	4,109
Payables to subsidiaries	5,808	3,158
Payables to associates	1	12
Payables to parent companies	47	0
Payables to other related parties	23	20
Payables to welfare and social security entities	188	142
Other payables	3,603	2,715
Accrued expenses and deferred income	41	36
	15,002	**10,192**
Total trade and other payables	**16,167**	**12,773**

There were no overdue and unpaid taxes towards social security institutions and employees at 31st December 2017.

Transactions with related parties (explained in par. 5.10 Annex 1) attributable to the Company's subsidiaries, joint ventures and associates (so-called "Intra-group"), and transactions with related parties other than intra-group ("Other Related Parties"), regard trade and financial dealings falling under normal operations and regulated at market conditions.

PAYABLES TO SUBSIDIARIES

(Euro/000)	Amounts at 31/12/2017					Amounts at 31/12/2016					Change
Subsidiary	current			non-current	Total	current			non-current	Total	
	Trade	Other	Total	Financial		Trade	Other	Total	Financial		
Aedes Project S.r.l. in liquidation	0	0	0	0	0	550	0	550	0	550	(550)
Bollina S.r.l.	1	0	1	0	1	1	0	1	0	1	0
Cascina Praga SIINQ S.p.A.	0	0	0	0	0	300	0	300	96	396	(396)
Novipraga SIINQ S.p.A.	0	0	0	793	793	0	0	0	65	65	728
Praga Res S.r.l. (former Praga Construction S.r.l.)	235	1,649	1,884	0	1,884	1,853	2	1,855	445	2,300	(416)
Pragaquattro Center SIINQ S.p.A.	0	0	0	2	2	0	0	0	3	3	(1)
Praga Service Real Estate S.r.l.	0	0	0	0	0	230	11	241	90	331	(331)
Pragaotto S.r.l.	0	0	0	26	26	0	0	0	7	7	19
Pragasette S.r.l. in liquidation	0	0	0	1	1	0	0	0	2	2	(1)
Pragaundici SIINQ S.p.A.	96	0	96	171	267	158	0	158	3	161	106
Societa' Agricola La Bollina S.r.l.	27	0	27	0	27	25	0	25	0	25	2
Redwood Fund	3,800	0	3,800	0	3,800	28	0	28	0	28	3,772
S.A.T.A.C. SIINQ S.p.A.	0	0	0	51	51	0	0	0	43	43	8
Total	**4,159**	**1,649**	**5,808**	**1,044**	**6,852**	**3,145**	**13**	**3,158**	**754**	**3,912**	**2,940**

The contribution upon merger by incorporation totaled Euro 3,563 thousand.

Financial payables are represented by payables arising from the transfer of the balance of taxes on taxable income falling under the national tax consolidation scheme and Group VAT, which are, on contractual dates, capitalized on the current accounts which pay in the year interest at Euribor 3-month plus 3.75%. Trade payables falling due in the year refer basically to the subsidiary Redwood Fund and regard the chargeback of rents and reimbursements; other current payables to Praga Res S.r.l., formerly Praga Construction S.r.l., refer basically to the sale to Aedes SIIQ S.p.A. of trade receivables accrued by the subsidiary vis-à-vis other Group companies and partly offset during the year through the current account held with Praga Res S.r.l..

PAYABLES TO THE PARENT COMPANY

The balance towards Augusto S.p.A. amounts to Euro 47 thousand and refers to the chargeback of costs from the shareholder loan.

PAYABLES TO ASSOCIATES

(Euro/000)	Amounts at 31/12/2017			Amounts at 31/12/2016			Change
Collegata	current	non-current	Total	current	non-current	Total	
	Trade	Other		Trade	Other		
Leopardi Fund	0	0	0	8	0	8	(8)
Golf Tolcinasco S.r.l.	0	0	0	3	0	3	(3)
Mercurio S.r.l. in liquidation	1	0	1	1	0	1	0
Pragasei S.r.l.	0	0	0	0	221	221	(221)
Trixia S.r.l.	0	0	0	0	1,251	1,251	(1,251)
Total	**1**	**0**	**1**	**12**	**1,472**	**1,484**	**(1,483)**

Payables to associates related mainly to the transfer of taxes on taxable income as part of fiscal transparency; the payable to Trixia S.r.l. was assumed by the Leopardi Fund and was subsequently offset during the year against other receivables as set out in the agreement concluded on December 2016.

PAYABLES TO OTHER RELATED PARTIES

Current payables to other related parties amounted to Euro 23 thousand at 31st December 2017, basically unchanged versus the prior year.

OTHER PAYABLES

It is composed as follows:

(Euro/000)	31/12/2017	31/12/2016
Security deposits/tenants' interest	121	60
Other payables	0	295
Non-current payables to others	**121**	**355**

(Euro/000)	31/12/2017	31/12/2016
Bonuses, accrued leave, 13th monthly salary bonus and other payables to employees	826	723
Other payables	2,777	1,992
Current payables to others	**3,603**	**2,715**
Total other payables	**3,724**	**3,070**

The contribution upon merger by incorporation amounted to a total of:

- Euro 15 thousand, regarding the non-current portion (of which Euro 11 thousand from the contribution upon merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A.);
- Euro 14 thousand, regarding the current portion (of which Euro 9 thousand from the contribution upon merger by incorporation of the subsidiary Redwood S.r.l.).

Other payables relate mainly to:

- payables for fees to Directors (Euro 1,357 thousand), inclusive of relating bonuses, and to the Board of Statutory Auditors (Euro 62 thousand);
- price adjustment from the purchase/sale of investments (Euro 179 thousand);
- payables from service charges (Euro 239 thousand);
- payables from contractual commitments undertaken with other unit holders of the Leopardi Fund (Euro 756 thousand).

Payables to employees consist mainly of leave and holidays accrued but not taken, in addition to bonuses to Management and employees.

There are no other payables falling due beyond 5 years other than those mentioned in the previous notes.

PAYABLES TO SUPPLIERS

The contribution upon merger by incorporation of payables to suppliers totaled Euro 590 thousand (of which Euro 548 thousand from the contribution upon merger by incorporation of the subsidiary Cascina Praga SIINQ S.p.A.).

The balance due to suppliers amounted to Euro 5,291 thousand and consists, for Euro 2,494 thousand, in invoices received and, for Euro 2,797 thousand, in invoices to receive. Payables to suppliers increased versus the prior year; the balance at 31st December 2017 comprises:

- Euro 737 thousand from invoices received but not overdue related to work progress on the development project named "Lotto 10B Nuovo Ramo Trasversale";
- Euro 329 thousand from invoices received but not overdue related to the implementation of certain investments to improve the value of the commercial spaces and the property situated in Catania.

The breakdown by maturity of payables to suppliers is shown in the table below:

(Euro/000)	Falling due	Overdue by				Total
		0-60 days	61-90 days	91-120 days	Over 120 days	
	3,959	103	24	1	1,204	5,291
Ageing of payables to suppliers	**3,959**	**103**	**24**	**1**	**1,204**	**5,291**

At year-end 2017, overdue payments amounted to Euro 1,332 thousand. Mention should be made, however, that no actions have been taken by creditors for the relevant recovery, as the creditors conduct business relations with the Company on an ongoing basis.

"Accrued expenses and deferred income" includes rental revenue and reimbursements to tenants already invoiced but pertaining to 2018.

Note 17. Tax payables

(Euro/000)	31/12/2017	31/12/2016
Non-current		
Non-current tax payables	0	221
Total	**0**	**221**

(Euro/000)	31/12/2017	31/12/2016
Current		
Current tax payables	550	1,161
Total	**550**	**1,382**

There were no overdue and unpaid taxes at 31st December 2017.

The table below provides a breakdown of tax payables at 31st December 2017:

(Euro/000)	Tax	Tax year	Filing date of settlement	Current portion	Non-current portion	Total debt at 31/12/2017
Company						
Aedes SIIQ S.p.A. (former Iupiter S.r.l.)	Irpeg	2004	28/04/2015	208	0	208
Aedes SIIQ S.p.A. (former PH Real Estate S.p.A.)	VAT irregularity Multipraga	2006	02/10/2017	14	0	14
Tax payables through instalment				**222**	**0**	**222**
Other taxes				**328**	**0**	**328**
Total				**550**	**0**	**550**

The balance consists mainly of payables to the Revenue Agency for the following “tax assessment settlements” relating to:

- the judicial settlement agreement for an assessment notice for 2004 IRES received by Aedes (acquirer of Iupiter S.r.l., in turn acquirer of Piemongest S.p.A.). The Company has agreed to pay twelve quarterly instalments, falling due from 30th April 2015 to 30th January 2018, including penalties; at 31st December 2017, the residual debt amounted to Euro 208 thousand, paid on 30th January 2018;
- the assessment notice related to the penalties and collection fees regarding Multipraga VAT. On 2nd October 2017, by signing the declaration of accession to reduced settlement (art. 6 of Decree Law no. 193/2016 converted with amendments by Law no. 225/2016), the Company agreed on the tax collection settlement for the amount of Euro 71 thousand; at 31st December 2017, the residual debt amounted to Euro 14 thousand, with final payment on 2nd July 2018.

Current tax payables also include the withholding tax on income from salaried work for Euro 237 thousand, and withholding taxes on income from self-employed work and kindred income for Euro 91 thousand.

INCOME STATEMENT

Note 18. Revenue from sales and services

(Euro/000)	31/12/2017	31/12/2016
Property leases and chargebacks to tenants	11,809	8,483
Sale of properties classified under current assets	0	2,530
Gains from sale of investment property	558	0
Provision of services	518	599
Total	**12,885**	**11,612**

Property leases increased by Euro 3,326 thousand versus the prior year, due to the increase in the revenue portfolio, consistent with the SIIQ/REIT strategy. It includes the charge to Group companies domiciled in via Morimondo related to costs for serviced areas of Euro 266 thousand (Euro 346 thousand in 2016) and to rental revenue and reimbursements of the Company’s owned properties of Euro 11,543 thousand (Euro 8,137 thousand in 2016). In

2017, revenue from rental other than for serviced areas of Euro 10,658 thousand increased by Euro 2,919 thousand versus the prior year, following the assignment of commercial properties of the Redwood Fund, which took place on 28th December 2016, and the contribution upon merger by incorporation of Redwood S.r.l. during the year of commercial licences relating to the above properties. Revenue from reimbursements amounting to Euro 885 thousand increased by Euro 487 thousand versus the prior year, due mainly to the acquisition of commercial properties in the year.

"Gains from the disposal of investment property" refers to revenue generated by the disposal to third parties of:

- two retail properties, equal to 10% of the non-core portion of the Ex Redwood portfolio, a vacant portion of a property situated in Feroleto Antico (CZ), and another vacant property situated in Bassano del Grappa (VI), booked with an overall net amount of Euro 1,860 thousand;
- a property situated in Serravalle Scrivia for warehouse use, booked with an overall net amount of Euro 3,058 thousand.

"Provision of services" includes the amounts from the provision of property services in the areas of asset management and financial and administrative services, general services, EDP and human resources, amounting to Euro 499 thousand to Group companies, and to Euro 19 thousand to third parties.

Note 19. Other revenue

(Euro/000)	31/12/2017	31/12/2016
Other non-property chargebacks	24	36
Other income	1,615	2,010
Total	**1,639**	**2,046**

Other revenue relates mainly to the release of provisions for excess bad debts, to the chargeback of costs to third parties and to Group companies, and to various contingent assets.

Note 20. Change in inventory

(Euro/000)	31/12/2017	31/12/2016
Cost of sales	0	(2,293)
(Write-down)/reversal of inventory	0	0
Total	**0**	**(2,293)**

The item remained unchanged in the year under review.

Note 21. Costs for raw materials and services

(Euro/000)	31/12/2017	31/12/2016
Costs for purchase of raw materials and other goods	627	181
Costs for services on owned properties	2,142	437
Services	7,211	7,464
Total	**9,980**	**8,082**

The table below shows the breakdown of costs for raw materials and services, split up by type of expense:

(Euro/000)	31/12/2017	31/12/2016
Other general costs	34	56
Property management costs	593	125
Subtotal a) Costs for raw materials	**627**	**181**
Property cleaning	28	23
Maintenance	161	24
Insurance	42	24
Service charges	196	0
Other	1,715	366
Subtotal b) Owned-property services	**2,142**	**437**
Commissions (c)	**48**	**0**
Fees to Directors	2,305	2,154
Fees to Board of Statutory Auditors	153	160
Professional services	2,555	2,751
Commissions and bank charges	270	35
Travel expenses	162	139
Head office maintenance, cleaning and telephone	398	402
Energy	101	130
Advertising costs	21	21
Sundry	415	438
Subtotal d) General expenses	**6,380**	**6,230**
Rental charges	491	965
Lease rent	292	269
Subtotal e) Use of third-party assets	**783**	**1,234**
Total	**9,980**	**8,082**

COSTS RELATING TO OWNED PROPERTIES

They mainly regard costs for utilities, water, electricity and gas for heating amounting to Euro 593 thousand, classified in costs for raw materials, and costs for services relating to owned properties amounting to Euro 2,142 thousand. The increase by Euro 2,151 thousand versus the prior year is due mainly to the acquisition of commercial property in the prior year and completed this year, consistent with the SIIQ/REIT strategy.
"Other" comprises costs incurred for the development project named "Lotto 10B Nuovo Ramo Trasversale of Euro 899 thousand (zero in 2016), charged back to the subsidiaries Pragaundici SIINQ S.p.A., Novipraga SIINQ S.p.A. and Pragaotto S.r.l., costs relating to Facility Management services of Euro 360 thousand (Euro 183 thousand in 2016), TARI, TASI, and other local taxes of Euro 250 thousand (Euro 47 thousand in 2016), contract registration fees of Euro 165 thousand (Euro 87 thousand in 2016) and supervisory and surveillance costs of Euro 41 thousand (Euro 35 thousand in 2016).

GENERAL EXPENSES

General expenses remained virtually unchanged versus the prior year.

The cost of Directors' fees includes the bonus to them.

Professional services mainly include legal and notary costs for Euro 495 thousand, consulting in the preparation of procedures, auditing costs and outsourcing of internal audit activities for Euro 418 thousand, technical and property management consulting for Euro 381 thousand, tax and administrative consulting for Euro 301 thousand, investor relations costs for Euro 235 thousand, communication costs for Euro 129 thousand, and IT consulting for Euro 92 thousand.

"Head office maintenance, cleaning and telephone" comprises telephone costs for Euro 70 thousand, maintenance, that does not qualify for capitalization, on the property in Via Morimondo, Milan (the head office) for Euro 25 thousand, in addition to fees for the servicing of computer and telephone equipment for Euro 205 thousand and cleaning of the head office for Euro 73 thousand.

“Other” includes mainly costs for sundry insurance of Euro 237 thousand, costs for surveillance and reception of Euro 100 thousand, costs for service charges of the main office of Euro 45 thousand, costs for employee training of Euro 30 thousand, and other minor costs.

RENTAL CHARGES

This item basically includes the “normalized” rental cost of the headquarters in Via Morimondo, partly recharged to Group companies.

COSTS FOR THE USE OF THIRD-PARTY ASSETS

Lease payments refer to the rental of cars supplied to employees and/or operational Directors for Euro 227 thousand, and fees for the provision of IT and telephone equipment for Euro 65 thousand.

Note 22. Personnel expense

(Euro/000)	31/12/2017	31/12/2016
Wages and salaries	3,204	2,833
Social charges	897	797
Severance indemnity	223	177
Other personnel expense	92	70
Total	**4,416**	**3,877**

Personnel expense increased by Euro 539 thousand versus the prior year, due mainly to new hires and/or transfers following the transfer of a contract by Group companies (average number of employees increased by 5.7 units versus the prior year).

Note 23. Other operating costs

(Euro/000)	31/12/2017	31/12/2016
IMU	1,493	901
General Company charges	414	211
Shareholders’ Meetings, financial statements, Consob obligations, Stock Exchange	138	157
Other minor charges	47	71
Total	**2,092**	**1,340**

“IMU”, an Italian municipal tax, increased by Euro 592 thousand versus the prior year, due mainly to the acquisition of commercial properties in the prior year.

“General corporate charges” increased by Euro 203 thousand versus the prior year and consists mainly of: losses on trade receivables of Euro 171 thousand (nil in 2016); sponsorship costs and entertainment expenses of Euro 112 thousand (Euro 95 thousand in 2016); membership fees, subscriptions and attendance in conferences of Euro 89 thousand (Euro 77 thousand in 2016) and TARI for the company headquarters of Euro 26 thousand (unchanged versus 2016).

“Other minor charges”, which fell by Euro 24 thousand, consists primarily of:

- Euro 17 thousand for donations;
- Euro 12 thousand for porterage costs;
- Euro 7 thousand for fines, penalties and contractual penalties.

Note 24. Amortization/depreciation, fair value adjustments, impairment losses and provisions

(Euro/000)	31/12/2017	31/12/2016
Amortization	33	26
Depreciation of tangible fixed assets:		
equipment	365	343
other assets	64	94
Amortization and depreciation	**462**	**463**
Fair value adjustment of investment property	**(14,623)**	**(32,637)**
Other impairment of fixed assets	0	77
Write-down of tax receivables and receivables from clients under current assets	413	0
Write-down of receivables from associates under current assets	(761)	0
Provisions for risks	(443)	1,740
Write-downs and allocations	**(791)**	**1,817**
Total	**(14,952)**	**(30,357)**

Fixtures consist mostly of the decorations for the new registered office in Via Morimondo, the depreciation of which follows the term of the relevant lease.

The fair value adjustment of investment property to align it to market values resulting from the appraisals at 31st December 2017 requested by the Directors, totaled (Euro 14,623) thousand.

The revaluations regard:
- two office towers located in Via Richard, Milan (revalued by Euro 9,605 thousand);
- the property in Via Agnello 12, Milan (revalued by Euro 8,100 thousand);
- the property in Via Vigilio 1, Milan (revalued by Euro 1,339 thousand);
- 3 commercial properties with relating business licences granted at the end of the prior year from the partial contribution of the Redwood Fund (revalued by a total of Euro 770 thousand);
- land and relating business licences falling in the investment property development project named “Praga Business Park” (revalued by Euro 10 thousand).

Downward adjustments referred to:
- 14 commercial properties (six of which with relating business licences) assigned at the end of the prior year from the partial contribution of the Redwood Fund (written down by a total of Euro 2,401 thousand);
- the property in Via Etnea, Catania, with relating licence (written down by a total of Euro 2,100 thousand);
- the property in Via Veneziani 56, Rome (written down by Euro 700 thousand).

The write-down of tax receivables and trade receivables from third parties and the write-back of trade receivables from associates were made to align the value of the receivables with their presumed realizable value.

“Provisions for risks” refers to the provision and/or release of the excess amount of charges set aside, as further explained in Note 15, against:
- the release of future charges of Euro 280 thousand;
- the release of tax disputes of Euro 2 thousand;
- the release of contractual charges of Euro 98 thousand from commitments arising from the disposal of investments;
- the release of contractual risks of Euro 63 thousand related to a number of existing disputes.

Note 25. Income/(Loss) on investments

(Euro/000)	31/12/2017	31/12/2016
Subsidiaries		
Write-backs	5,683	44
Provisions for risks	(99)	(543)
Write-downs	(9,000)	(10,921)
	(3,416)	**(11,420)**
Associates		
Write-backs	1,070	2,555
Write-downs	(3,216)	(2,694)
	(2,146)	**(139)**
Dividends	0	1,217
Other income/(charges)	**(1,292)**	**(750)**
	(6,854)	**(11,092)**

The item includes the write-downs and the write-backs of investments held in subsidiaries and associates, respectively equal to (Euro 3,416) thousand and (Euro 2,146) thousand, carried out to align their value to their recoverable value; further details are found in Notes 4 and 5.

Other income/(charges) refer to:

- contractual commitments with other unit holders of the Leopardi Fund for Euro 756 thousand;
- losses on disposals of investments for Euro 375 thousand, relating to the sale of 100% of the units held in the share capital of Golf Club Castello di Tolcinasco SSD S.r.l. to Milestone Servizi S.r.l., and for Euro 361 thousand relating to the liquidation of the subsidiary Aedes Project S.r.l.;
- gains on disposals of investments for Euro 200 thousand, relating to the sale of the units held in the share capital of Roma Development S.r.l., and to financial receivables claimed by Aedes from the above company.

Note 26. Income and (financial charges)

(Euro/000)	31/12/2017	31/12/2016
Income		
Interest on bank accounts	4	92
Interest on loans to associates	605	839
Change in fair value of derivative instruments	137	0
Interest on loans to subsidiaries	1,973	1,520
Other interest income	194	6
	2,913	**2,457**
Charges		
Interest on bank accounts	256	175
Interest on bank loans	3,491	990
Interest on non-bank loans	643	267
Interest on loans from subsidiaries	13	67
Change in fair value of derivative instruments	0	507
Interest expense on other payables	1,243	146
	5,646	**2,152**
Total	**(2,733)**	**305**

Interest receivable/payable from/to associates and subsidiaries accrues on loans granted/received and is calculated on the basis of normal market conditions.
The positive net effect of the fair value measurement of derivatives was Euro 137 thousand.
"Other interest income" refers, for Euro 4 thousand, to interest accrued on the payment extension granted to Tourist Ferry Boat S.p.A. for the purchase of the investment Neptunia S.p.A. in 2015 and, for Euro 190 thousand, to interest accrued on the tax receivable for the substitute tax under Law 266/2005, arising in 2010, of Mercurio S.r.l., merged by incorporation into Galileo Ferraris 160 S.r.l. former Aedilia Sviluppo 1 S.r.l., and transferred by the latter to the Parent Company Aedes SIIQ S.p.A. as part of the national tax consolidation scheme and subject to reimbursement by the Revenue Agency in the year.

The amount of interest payable on current accounts and on bank loans increased in the year by Euro 2,582 thousand, due specifically to the increased bank debt.
Interest payable on non-bank loans relates to the finance lease entered into with Unicredit Leasing regarding the property in Via Agnello 12, Milan for Euro 643 thousand (Euro 267 thousand in 2016). In April 2017, the early termination of the above finance lease resulted in the chargeback to the Company of financial charges for property redemption of Euro 650 thousand.

Interest expense on other payables refers, for Euro 594 thousand, to interest and other amortized financial costs from the bond, for Euro 466 thousand, to interest and other amortized financial costs from the financial debt towards Augusto S.p.A., for Euro 166 thousand, to the differential on derivatives (Euro 121 thousand in 2016), for Euro 6 thousand, to interest expense for tax disputes paid in instalments, subject to a tax assessment settlement with the Revenue Agency (Euro 12 thousand in 2016) and, for Euro 11 thousand (Euro 10 thousand in 2016), to interest costs from severance indemnity.

Note 27. Income taxes for the year

(Euro/000)	31/12/2017	31/12/2016
Current taxes	(202)	(317)
Deferred/prepaid taxes	(21)	(6)
Total	**(223)**	**(323)**

(Euro/000)	31/12/2017	31/12/2016
Current IRES and IRAP	0	0
Income/(Charges) from tax consolidation scheme	61	(253)
Prior-years' taxes	(263)	(64)
Current taxes	**(202)**	**(317)**
Prepaid/(Deferred) taxes	**(21)**	**(6)**
Total	**(223)**	**(323)**

Starting from a negative result from taxable operations of Euro 2,422 thousand, in 2017 the Company accrued taxable income (deriving mainly from (i) booked write-downs, (ii) the tax loss from tax-exempt operations and (iii) from non-deductible taxes), fully neutralized by the losses incurred by the Company itself.
Income from the inclusion in tax consolidation amounted to Euro 61 thousand, attributable to the taxable amounts carried to tax consolidation by a number of Group companies.
Prior-years' taxes refer mainly to the allocation of an additional Euro 400 thousand for the adjustment of the provision for tax risks and the income for Euro 175 thousand realized by agreeing in the year to the reduced settlement (art. 6 of Decree Law no. 193/2016 converted with amendments by Law no. 225/2016) of tax disputes.

Note 28. Commitments

GUARANTEES ISSUED BY BANKS IN THE INTEREST OF THE COMPANY IN FAVOUR OF THIRD PARTIES

The item includes:

- Euro 172 thousand for a bank guarantee issued by Veneto Banca S.p.A. in favour of C4 Investment fund in the interest of Aedes SIIQ S.p.A. to guarantee the provisions of the lease contract concluded on 25th July 2015 as subsequently amended;

GUARANTEES ISSUED BY INSURANCE COMPANIES IN THE INTEREST OF THE COMPANY IN FAVOUR OF THIRD PARTIES

- Euro 2,031 thousand for an insurance surety issued by Reale Mutua di Assicurazioni in favour of the Municipality of Serravalle Scrivia in the interest of Aedes SIIQ S.p.A., to guarantee the infrastructure work under the Agreement;
- Euro 90 thousand for an insurance surety issued by Elba Assicurazione S.p.A. in favour of the Municipality of Serravalle Scrivia in the interest of Cascina Praga SIINQ S.p.A., now Aedes SIIQ S.p.A., as a guarantee of the infrastructure work on the road section of Lot 10 B.

GUARANTEES ISSUED BY AEDES IN THE INTEREST OF GROUP COMPANIES

The item mainly includes:

- Euro 67,650 thousand for an autonomous guarantee on first demand given in the interest of the subsidiary Novipraga SIINQ S.p.A. in favour of Unicredit as a guarantee of the loan granted;

- Euro 3,500 thousand for the letter of Patronage given in the interest of the subsidiary Pragaquattro Center SIINQ S.p.A. in favour of UBI Banca as a guarantee of the loans granted;
- Euro 1,300 thousand for the letter of Patronage given in the interest of the subsidiary Pragaquattro Center SIINQ S.p.A. in favour of Unicredit as a guarantee of the credit facility granted;
- Euro 12,000 thousand for the letter of Patronage given in the interest of the subsidiary Pragaotto S.r.l. in favour of Banca Popolare di Milano as a guarantee of the loan granted;
- Euro 7,704 thousand for the co-obligation of Aedes SIIQ S.p.A. in the interest of the subsidiary Pragaotto S.r.l. in relation to the loan granted by Carige Italia S.p.A..;
- Euro 2,900 thousand for the letter of Patronage given in the interest of the subsidiary Pragaotto S.r.l. to Banca d'Alba as a guarantee of the loan granted;
- Euro 8,000 thousand for the letter of Patronage given in the interest of the subsidiary S.A.T.A.C. SIINQ S.p.A. in favour of Cassa di Risparmio di Asti as a guarantee of the loan granted;
- Euro 1,087 thousand for the letters of Patronage given in the interest of the subsidiary Praga France S.a.r.l. in favour of UBI Banca as a guarantee of the loans granted;
- Euro 1,850 thousand for the letter of Patronage given in the interest of the subsidiary Pragaundici SIINQ S.p.A. in favour of Banca Intesa San Paolo as a guarantee of the loan granted;
- Euro 1,150 thousand for the letter of Patronage given in the interest of the subsidiary Società Agricola La Bollina S.r.l. in favour of Cassa di Risparmio di Parma e Piacenza as a guarantee of the loans granted;
- Euro 100 thousand for the letter of Patronage given in the interest of the subsidiary Società Agricola La Bollina S.r.l. in favour of Cassa di Risparmio di Parma e Piacenza as a guarantee of the credit facility granted;
- Euro 200 thousand for the letter of Patronage given in the interest of the subsidiary Società Agricola La Bollina S.r.l. in favour of Cassa di Risparmio di Parma e Piacenza as a guarantee of the agricultural promissory note granted;
- Euro 400 thousand for the letter of Patronage given in the interest of the subsidiary Praga Res S.r.l in favour of Cassa di Risparmio di Parma e Piacenza as a guarantee of the credit facility granted;
- Euro 50 thousand for the letter of Patronage given in the interest of the subsidiary Bollina S.r.l. in favour of Cassa di Risparmio di Parma e Piacenza as a guarantee of the credit facility granted.

GUARANTEES ISSUED BY THIRD PARTIES IN THE INTEREST OF GROUP COMPANIES IN RESPECT OF WHICH THE COMPANY IS JOINTLY OBLIGATED

The item mainly includes:

- Euro 111 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of the subsidiary Pragaotto S.r.l., as a guarantee of the infrastructure work on Standard PV2;
- Euro 207 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of the subsidiary Pragaotto S.r.l., as a guarantee of the infrastructure work on Standard PV1;
- Euro 130 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of the subsidiary Pragaotto S.r.l., as a guarantee of the infrastructure work on Internal road services;
- Euro 466 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of the subsidiary Pragaotto S.r.l., as a guarantee of the infrastructure work on PEC (Agreed Executive Plan) Road Services;
- Euro 124 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of the subsidiary Pragaotto S.r.l., as a guarantee of the infrastructure work on Strada Gorreto;
- Euro 135 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Santa Vittoria d'Alba (CN) in the interest of the subsidiary Pragaotto S.r.l., as a guarantee of the infrastructure work on the roundabout;
- Euro 16,496 thousand for an insurance surety issued by Elba Assicurazioni S.p.A. in favour of the Municipality of Caselle Torinese in the interest of the subsidiary S.A.T.A.C. SIINQ S.p.A. in relation to the development of the Caselle Open Mall;
- Euro 266 thousand for an insurance surety issued by Atradius Credit Insurance N.V. in favour of the Municipality of Novi Ligure (AL) in the interest of the subsidiary Novipraga SIINQ S.p.A., as a guarantee of the provisions of the town-planning agreement signed on 24th September 2015 and recorded in Alessandria on 9th October 2015 N. 9949 - Series 1 T;
- Euro 3,425 thousand for insurance sureties issued by Elba Assicurazioni S.p.A. in favour of the Municipalities of Novi Ligure and Serravalle Scrivia in the interest of the subsidiary Novipraga SIINQ S.p.A. in relation to the development work on the Retail Park.

Mention should also be made that Aedes issued:

- Euro 40,648 thousand for an autonomous guarantee on first demand issued in favour of Crédit Agricole Corporate and Investment Bank in the interest of the associate Pragasei S.r.l., as a guarantee of the loan granted to the latter. It should additionally be noted that Serravalle Outlet Mall Investment S.ar.l., holding 49.9%, has issued an identical guarantee;
- Euro 406 thousand for an insurance surety issued in favour of the Revenue Agency in the interest of the associate Pival S.r.l. with regard to VAT receivables claimed as refund;
- Euro 131 thousand for an insurance surety issued in favour of the Revenue Agency in the interest of Aedificandi S.r.l. (discontinued company), with regard to 50% of VAT receivables claimed as refund.

Lastly, it should also be noted that, under the broader budget package, and with regard to the agreements concluded on 23rd December 2014 between Aedes SIIQ S.p.A. and Sator Immobiliare SGR S.p.A., the latter, in name and on behalf of the Leopardi Fund, has undertaken, with regard to a number of counter-guarantees issued by Aedes SIIQ S.p.A. in the interest of Rubattino 87 S.r.l. and Galileo Ferraris 160 S.r.l. to secure the recourse claim from, respectively, Generali S.p.A., Atradius Credit Insurance N.V., Reale Mutua Assicurazioni S.p.A., Meliorbanca S.p.A. and Unicredit S.p.A., relating to the sureties they issued in the interest of Rubattino 87 S.r.l. and Galileo Ferraris 160 S.r.l., to indemnify Aedes SIIQ S.p.A. from any liability arising from or related to the above commitments.

GUARANTEES ON ASSETS OWNED BY THE COMPANY

A grant has been made in pledge to the lenders of shares held in Novipraga SIINQ S.p.A. and Pragasei S.r.l..

COMMITMENTS TOWARDS THIRD PARTIES

- Euro 20.9 million for the remaining financial commitment on the San Marino - The Market transaction;
- Euro 6,688 thousand for the commitment undertaken by Aedes SIIQ S.p.A. for any extra costs in the construction of the shopping center named “Serravalle Luxury Outlet (PHASE 6)” owned by Pragasei S.r.l.. It should additionally be noted that Serravalle Outlet Mall Investment S.ar.l., holding 49.9% in Pragasei S.r.l., has issued a similar commitment;
- Euro 5,300 thousand for the commitment undertaken by Aedes SIIQ S.p.A. towards the Petrarca Fund to grant a loan to finance the extraordinary works on the properties contained in the Business Plan;
- Euro 3,000 thousand for the commitment undertaken by Aedes SIIQ S.p.A. to maintain share capital and shareholder loans at a minimum level vis-à-vis Banca Popolare di Milano in respect of the loan granted;
- Euro 632 thousand for the commitment undertaken by Aedes in favour of the Municipality of Santa Vittoria d’Alba (CN) for infrastructure work on PEC (Agreed Executive Plan) standard areas, Lot C.

It should be noted that, in respect of the sum of all the undertakings set out in this Note 28, the Company has made provisions for risks where deemed necessary.

Note 29. IFRS 13

IFRS 13 Fair Value Measurement was published by the IASB on 12th May 2011 and endorsed by the European Union on 11th December 2012 with Reg. 1255/2012.
The standard governs the assessment and measurement of the fair value of items presented in the financial statements. IFRS 13 defines fair value as the exit price, i.e. “The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date”.
The fair value measurement process takes account of the characteristics of the asset or liability to be measured, referring to the conditions, location, constraints/restrictions on the sale or use of the items in question. Fair value measurement assumes a transaction taking place in a principal market or, in the absence of a principal market, the most advantageous market. The principal market is the market with the greatest volume and level of activity for the asset or liability.
The most advantageous market is the market that maximises the amount arising from the sale of the asset, or minimises the amount paid to transfer the liability, net of transport and ancillary costs. Unlike transport costs, ancillary costs must be considered only in the identification of the most advantageous market and not in the measurement of fair value.

Under IFRS 13:

- non-financial assets must be measured using the "Highest and best use" method, i.e. taking account of the best use of the assets from the perspective of market participants;
- liabilities (financial and non-financial) and equity instruments (i.e. shares issued as consideration in a business combination) must be transferred to a market participant at the measurement date. The fair value measurement of a liability reflects non-performance risk of the counterpart entity, including credit risk.

The general rules for preparing fair value measurement techniques should be adjusted based on the circumstances, configured in order to maximize the observable inputs and established in accordance with the measurement method used (multiples method, income method, cost method):

1. Adequate based on the circumstances: measurement techniques must be applied consistently over time, unless there are more representative alternative techniques for the measurement of fair value.
2. Maximize the observable inputs: inputs are divided into observable and unobservable, providing various examples of markets from which fair values can be calculated.
3. Measurement techniques of fair value are classified in three hierarchical levels according to the type of input used:
   - Level 1: inputs are quoted prices in active markets for identical assets or liabilities to assess. In this case, prices are used without any adjustments.
   - Level 2: inputs are quoted prices or other information (interest rates, observable yield curves, credit spreads) for similar assets and liabilities in active and inactive markets. In this case, price adjustments can be made based on specific factors of the assets or liabilities.
   - Level 3: in this case inputs are unobservable. Under the standard, the latter technique can be used only in this case. Inputs for this level include, for instance, long-term currency swaps, interest rate swaps, decommissioning liabilities undertaken in a business combination, etc..

The arrangement of these levels follows a priority hierarchy: attributing the maximum importance to level 1 and the minimum for level 3.

Under IFRS 13, there are three different measurement methods that can be used in the measurement of fair value:

- the market method uses prices and other relevant information for market participants involving identical or comparable assets and liabilities. The models used are the multiples method and matrix pricing;
- the income method is obtained from the discounted sum of future amounts to be generated by the asset. This method provides a fair value that reflects current market expectations on such future amounts;
- the cost method reflects the amount that would be required at the measurement date to replace the service capacity of the asset being measured. Fair value will be equal to the cost that a market participant would incur to acquire or build an asset of adjusted comparable use (taking account of the level of obsolescence of the asset). It should be noted that the cost method can be used only when the other methods cannot be used.

Measurement techniques are applied consistently over time, unless there are alternative techniques that provide a more representative measurement of fair value. When selecting measurement techniques, great importance is attached to the assumptions adopted in the determination of the assets or liabilities.

The assets of the Aedes Group have been classified in the 3rd hierarchical level; all properties held by Group companies have been grouped into the following categories, depending on their intended use:

- Retail;
- Office;
- Other.

The table below shows the book value and fair value of the properties owned by Aedes, classified according to the assessment methodology and the intended use:

(Euro)	Discounted Cash Flow (DCF)		Comparative Method		Residual Method		Total	
Use	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Retail	72,210,000	72,210,000	790,000	790,000	1,750,000	1,750,000	74,750,000	74,750,000
Office	126,000,000	126,000,000	0	0	0	0	126,000,000	126,000,000
Other	0	0	650,000	650,000	0	0	650,000	650,000
Total	**198,210,000**	**198,210,000**	**1,440,000**	**1,440,000**	**1,750,000**	**1,750,000**	**201,400,000**	**201,400,000**

The above amounts are shown in Euro and do not include inventory that is measured under IAS 2 "Inventory".

The main measurement methods used are the DCF and the Residual Method, while the Comparison Method is used for part of the properties, deemed as being more specific to the type of assets. There follows a breakdown of the measurement methods used:

- **Discounted Cash Flow** (or 'DCF'): taking account of the initial investment yield and the yield profile in the early years of investment, a Discounted Cash Flow is built over a specific time horizon. This approach depends on many variables, inter alia, the market lease rent, assumptions on market growth, output yield rate, and discount rate. A comparison is also made of the initial investment yield and the yield trend with recent market transactions, using the DCF as a support in the projection of costs and revenue;
- **Comparative Method**: based on the direct comparison of an asset with similar or related purchased goods; the prices paid or requested are correlated with factors affecting the value of the property; this measurement method is usually applied to residential properties or property intended for direct users;
- **Residual Method**: generally used for vacant/to be restored properties before being re-rented or sold and for development projects; the market value is the result of the difference between the value of the converted asset and the sum of all the conversion costs, net of the profit that the subject would seek as compensation (if the subject were to buy the property today) of the double risk assumed in conversion and subsequent sale.

As the entire property assets of the Company and its subsidiaries and associates are subject to appraisal by independent valuers, the directors have not identified any second-level indicators of impairment.

Note 30. Significant non-recurring events and transactions

Under Consob Communication of 28th July 2006, it should be noted that Aedes SIIQ S.p.A. did not carry out significant non-recurring transactions in the year.

Note 31. Atypical and/or unusual transactions

In 2017, no atypical and/or unusual transactions were carried out by Aedes[1].

[1] Under Consob Communication of 28th July 2006, which defines atypical and/or unusual transactions as transactions which, by significance/relevance, nature of the counterparties, object of the transaction, transfer pricing method and timing of the event, may give rise to doubts regarding: the accuracy/completeness of the information in the financial statements, conflicts of interest, safeguarding of company assets, and the protection of minorities.

Note 32. Information on financial risks

CATEGORIES OF FINANCIAL INSTRUMENTS

There follows a breakdown of the financial assets and liabilities required by IFRS 7 in the scope of the categories of IAS 39.

Amounts at 31st December 2017

(Euro/000)	Assets at Fair Value	Held-to-maturity investments	Loans and receivables	Assets at amortized cost	Available-for-sale assets	Book value at 31/12/2017	Notes
Financial instruments - Assets at 31/12/2017							
Non-current financial assets	45	0	48,030	0	0	48,075	7-8
Trade receivables	0	0	14,267	0	0	14,267	9
Current financial assets	0	0	234	0	0	234	8
Cash and cash equivalents	0	0	14,312	0	0	14,312	11
Total	**45**	**0**	**76,843**	**0**	**0**	**76,888**	

(Euro/000)	Liabilities at Fair Value	Liabilities at amortized cost	Book value at 31/12/2017	Notes
Financial instruments - Liabilities at 31/12/2017				
Non-current payables to banks and other lenders	0	123,396	123,396	13
Other non-current financial liabilities	283	121	404	7-16
Current payables to banks and other lenders	0	4,402	4,402	13
Payables to suppliers/advances from customers	0	12,214	12,214	16
Other current financial liabilities	0	2,777	2,777	16
Total	**283**	**142,910**	**143,193**	

Amounts at 31st December 2016

(Euro/000)	Assets at Fair Value	Held-to-maturity investments	Loans and receivables	Assets at amortized cost	Available-for-sale assets	Book value at 31/12/2016	Notes
Financial instruments - Assets at 31/12/2016							
Non-current financial assets	230	0	66,885	0	0	67,115	7-8
Trade receivables	0	0	6,543	0	0	6,543	9
Current financial assets	0	0	304	0	0	304	8
Cash and cash equivalents	0	0	3,849	0	0	3,849	11
Total	**230**	**0**	**77,581**	**0**	**0**	**77,811**	

(Euro/000)	Liabilities at Fair Value	Liabilities at amortized cost	Book value at 31/12/2016	Notes
Financial instruments - Liabilities at 31/12/2016				
Non-current payables to banks and other lenders	0	40,203	40,203	13
Other non-current financial liabilities	605	355	960	7-16
Current payables to banks and other lenders	0	27,243	27,243	13
Payables to suppliers/advances from customers	0	9,525	9,525	16
Other current financial liabilities	0	1,992	1,992	16
Total	**605**	**79,318**	**79,923**	

FINANCIAL INCOME AND CHARGES BOOKED IN THE FINANCIAL STATEMENTS

The table below shows the financial income and charges booked in the financial statements.

Amounts at 31st December 2017

(Euro/000)	From interest	From changes in fair value	From equity reserve	Exchange gains and losses	Book value at 31/12/2017	Notes
Income and loss from financial instruments - 2017						
Loans and receivables	2,776	0	0	0	2,776	26
Assets at fair value	0	0	0	0	0	26
Available-for-sale assets	0	0	0	0	0	26
Fair value liabilities	0	137	0	0	137	26
Liabilities at amortized cost	(5,646)	0	0	0	(5,646)	26
Total	**(2,870)**	**137**	**0**	**0**	**(2,733)**	

Amounts at 31st December 2016

(Euro/000)	From interest	From changes in fair value	From equity reserve	Exchange gains and losses	Book value at 31/12/2016	Notes
Income and loss from financial instruments - 2016						
Loans and receivables	2,457	0	0	0	2,457	26
Assets at fair value	0	0	0	0	0	26
Available-for-sale assets	0	0	0	0	0	26
Fair value liabilities	0	(507)	0	0	(507)	26
Liabilities at amortized cost	(1,645)	0	0	0	(1,645)	26
Total	**812**	**(507)**	**0**	**0**	**305**	

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of trade assets and liabilities and other financial receivables and payables corresponds to the nominal value booked in the financial statements.

The fair value of receivables and payables to/from banks is identified in detail in the relevant notes.

Under IFRS 7, derivative financial instruments measured at fair value are classified on the basis of a hierarchy of levels that reflect the significance of the inputs used for the calculation of fair value. This hierarchy has the following levels:

Level 1 - quoted prices in active markets for assets or liabilities subject to measurement;
Level 2 - inputs other than the quoted prices mentioned above, which are observable directly (prices) or indirectly (derived from prices) on the market;
Level 3 - that are not based on observable market data.

The table below shows, for loans, the book value recognized in the balance sheet and the relating fair value.

(Euro/000)	31/12/2017		31/12/2016		change
	book value	**fair value**	**book value**	**fair value**	
Mortgage loans	72,847	72,847	42,612	41,962	30,235
Lines of credit	876	876	8,107	8,107	(7,231)
Finance lease liabilities	-	-	16,727	16,727	(16,727)
Bonds	44,137	44,161			
Payables for Shareholders' contributions	9,938	9,938	-	-	9,938
Derivatives	238	238	375	375	(137)
Total	**128,036**	**128,060**	**67,821**	**67,171**	**60,215**
unrecognized (loss)/profit	(24)		650		

The table shows that, at 31st December 2017, for fixed-rate bonds only, the fair value differs from the book value. The difference of Euro 24 thousand is generated by a recalculation of the value of these loans at the closing date based on current market rates.
Fair value is classified at level 2 of the fair value hierarchy and was determined through generally recognized models of cash flow discounting, using a discounting rate based on "free risk".

The table below summarizes the conditions of the existing payables due to banks and other lenders at 31st December 2017, grouped by interest rate range, with the relevant indication of the book value, versus the figures reported in the prior year.

(Euro/000)	31/12/2017	31/12/2016
Interest rate (current)		
<2% (*)	6,744	29,778
2% - 3%	51,905	23,220
3% - 5.5%	69,387	14,823
5.5% - 6.5%		
>6.5%		
Total	**128,036**	**67,821**

(*) The item includes the positive and negative fair value of the Collar of Euro 238 thousand at 31st December 2017 and Euro 375 thousand at 31st December 2016.

The table below shows the assets and liabilities (derivative instruments commented in Note 7) measured at fair value at 31st December 2017, by hierarchical level of fair value measurement:

(Euro/000)	Level 1	Level 2	Level 3	Level 4
Derivative financial instruments	0	45	0	45
Total assets	**0**	**45**	**0**	**45**
Derivative financial instruments	0	(283)	0	(283)
Total liabilities	**0**	**(283)**	**0**	**(283)**
Total	**0**	**(238)**	**0**	**(238)**

Derivative financial instruments are measured using the Discounted Cash Flow Method. Future cash flows are discounted based on the forward rate curves expected at the end of the observation period and on the contractual fixing rates, also taking the counterparty credit risk into account, in compliance with IFRS 13.

The Company is exposed to financial risks:
- interest rate risk;
- exchange rate risk;
- liquidity risk;
- credit risk.

Risk management policies are shown in section 5.9. The following section provides qualitative and quantitative disclosures on the effect of these risks on the Company and the Group.

INTEREST RATE RISK

Financial instruments that expose the Company to interest rate risk are floating-rate loans.
Interest rate risk exposure excludes fixed-rate loans, as changes in fair value are not recognized in the income statement and have no cash flow variables, depending on market conditions.

Sensitivity Analysis
The financial instruments exposed to interest rate were subject to a sensitivity analysis at the reporting date. A symmetric variation of 50 bps was applied on debt at the balance sheet date.

The table below shows the change in the operating result for the year and in equity following the sensitivity analysis:

Years	Result		Total Equity	
	50 bps	-50 bps	50 bps	-50 bps
2017	**(639)**	**639**	**(639)**	**639**
2016	**(337)**	**337**	**(337)**	**337**

FLOATING-RATE LOANS

In order to reduce the Aedes Group's overall exposure to the interest rate risk, the Company concluded a derivative contract on 4th November 2015 with the following characteristics:

Type	zero cost Collar
Effective date	31st December 2015
Maturity	31st December 2020
Notional value	Euro 50 million, Bullet
Floating-Rate	Euribor 3 months, act/360, quarterly
Cap strike	1.00%
Floor strike	0.00%

It should be noted that the instrument is not tied to a specific loan, but has the purpose of reducing the risk of an increase in interest rates on the Group's overall exposure. Accordingly, any changes in the period will be recorded in the income statement as period adjustments to fair value.

EXCHANGE RATE RISK

At 31st December 2017, the Group is not subject to exchange rate risk, since it has no exposure to currencies other than the Euro.

LIQUIDITY RISK

Liquidity risk is the risk that the Company and the Group fail to meet their payment obligations, due to the difficulty in raising funds (funding liquidity risk) or in liquidating assets on the market (asset liquidity risk). This may cause adverse effects on the financial performance in the event that the Company or the Group are forced to incur additional costs to meet their commitments or, in a worst case scenario, a condition of insolvency endangering business continuity.
The Company, through its Finance Department and ongoing supervision by the Parent Company's executive bodies, keeps a watchful eye on cash and short-term financial commitments. For this purpose, the Group monitors the liquidity risk by preparing a detailed monthly financial budget, considering a time horizon of at least one year and the effective management of property sales and assumption of financial commitments.

In identifying the criteria to be used for the preparation of these financial statements, the Company/Group has taken account of cash flows from operations and financial commitments affecting all Group companies for a period of 12 months from the date of the forthcoming approval of the financial statements for the year under review, including the planned investing activities and forthcoming maturity of specific loan agreements currently in place.
Based on the requirements arising from the financial budget, the Company has identified the main funding sources, deriving mainly from:

- refinancing of certain assets;
- disposal of certain assets;
- rescheduling of short-term credit facilities.

Based on the information and the documentary evidence available at the date of preparing the financial statements at 31st December 2017, and on the progress of the initiatives currently in place with regard to the above funding sources, there are no significant risks of a possibility of not completing the actions according to the schedule and procedures set out in the financial budget. The Group's liquidity situation at the end of the twelve-month period is expected to be positive, despite acquisitions and investments in existing properties, to be financed using credit, via the market and/or by disposing of existing assets during the year. Accordingly, the Directors believe there are no uncertainties on the Company and Group's ability to meet their current and prospective financial obligations in the foreseeable future.

Here below are the summary tables of the analysis performed comparing the situations at 31st December 2017 and 31st December 2016.

(Euro/000)	Book value	Contractual cash flows	Within 1 year	1-2 years	2-5 years	over 5 years
31/12/2017						
Non-derivative financial liabilities						
Mortgage loans	72,847	79,023	5,376	5,843	61,320	6,484
Bonds	44,137	51,530	2,160	2,336	47,034	0
Payables to leasing companies	0	0	0	0	0	0
Unsecured loans	876	885	885	0	0	0
Other lenders	9,938	11,267	507	507	10,253	0
Derivative financial instruments						
Hedge derivatives	0	0	0	0	0	0
Non-hedge derivatives	238	238	0	0	238	0
Purchased CAP	(45)	(45)	0	0	(45)	0
Sold floor	283	283	0	0	283	0
Total	**128,036**	**142,943**	**8,928**	**8,686**	**118,845**	**6,484**

(Euro/000)	Book value	Contractual cash flows	Within 1 year	1-2 years	2-5 years	over 5 years
31/12/2016						
Non-derivative financial liabilities						
Mortgage loans	42,612	49,852	19,647	3,925	15,299	10,981
Payables to leasing companies	16,727	17,424	1,503	1,548	14,373	0
Lines of credit	8,107	8,150	7,322	828	0	0
Other lenders	0	0	0	0	0	0
Derivative financial instruments						
Hedge derivatives	0	0	0	0	0	0
Non-hedge derivatives	375	375	0	0	375	0
Purchased CAP	(230)	(230)	0	0	(230)	0
Sold floor	605	605	0	0	605	0
Total	**67,821**	**75,801**	**28,472**	**6,301**	**30,047**	**10,981**

The Company, through its Finance Department and ongoing supervision by the Parent Company's executive bodies, keeps a watchful eye on cash. For this purpose, the Company and the Group monitor the liquidity risk by preparing a detailed financial budget over a time horizon of at least one year and the effective management of property sales and assumption of financial commitments.

Analysis of liabilities by maturity

To complete the disclosures contained in the specific notes to the financial position, here below are the balancing items for the years ended 31st December 2017 and 31st December 2016.

(Euro/000)	Book value	committed	within 1 year	1 to 5 years	over 5 years
Analysis of liabilities by maturity - 2017					
Non-current payables to banks and other lenders	123,396	0	0	117,295	6,101
Other non-current financial liabilities	404	0	0	404	0
Current payables to banks and other lenders	4,402	0	4,402	0	0
Payables to suppliers/advances from customers	12,214	0	11,170	1,044	0
Other current financial liabilities	2,777	0	2,777	0	0
Total	**143,193**	**0**	**18,349**	**118,743**	**6,101**

(Euro/000)	Book value	committed	within 1 year	1 to 5 years	over 5 years
Analysis of liabilities by maturity - 2016					
Non-current payables to banks and other lenders	40,203	0	0	31,943	8,260
Other non-current financial liabilities	960	0	0	960	0
Current payables to banks and other lenders	27,243	0	27,243	0	0
Payables to suppliers/advances from customers	9,525	0	7,299	2,226	0
Other current financial liabilities	1,992	0	1,992	0	0
Total	**79,923**	**0**	**36,534**	**35,129**	**8,260**

CREDIT RISK

The Company's credit risk is mainly related to trade receivables for the sale of properties or shares and to the provision of services. For the latter, see the specific sections in the Explanatory Notes.

5.11 Annex 1 - Transactions with related parties

(Euro/000)	Non-current financial receivables	Current financial receivables	Cash and cash equivalents	Trade and other current receivables	Non-current payables	Current debt	Revenue from sales and services	Other revenue	Interest income	Costs for raw materials and services	Other operating costs	Interest expense
Counterparty												
Aedes Project S.r.l. in liquidation(*)	0	0	0	0	0	0	5	0	82	0	0	0
Aedilia Nord Est S.r.l.	1,688	0	0	11	0	0	10	1	63	0	0	0
Alpe Adria S.r.l.	0	0	0	7	0	0	0	0	0	0	0	0
Augusto S.p.A.	0	0	0	72	10,000	133	18	18	0	(269)(**)	0	(344)
Bollina S.r.l.(*)	0	0	0	0	0	1	1	0	0	0	(1)	0
Leopardi Fund	0	0	0	894	0	0	0	0	0	0	0	0
Redwood Fund (*)	0	0	0	0	0	3,800	0	0	0	(64)	0	0
Golf Club Castello di Tolcinasco SSD S.r.l.(*)	0	0	0	0	0	0	6	0	0	0	0	(13)
Mercurio S.r.l. in liquidation	0	0	0	0	0	1	0	0	0	0	0	0
Novipraga SIINQ S.p.A.(*)	7,126	0	0	599	793	0	25	110	241	0	0	0
Pival S.r.l.	0	0	0	22	0	0	10	0	0	0	0	0
Praga Res S.r.l. (former Praga Construction S.r.l.)(*)	649	0	0	2	0	1,884	211	200	80	(259)	0	0
Pragafrance S.à.r.l.(*)	2,739	0	0	0	0	0	30	0	178	0	0	0
Pragaotto S.r.l.(*)	22,799	0	0	259	26	0	29	110	736	0	0	0
Pragaquattro Center SIINQ S.p.A.(*)	267	0	0	64	2	0	25	0	181	0	0	0
Pragasei S.r.l.	9,790	0	0	0	0	0	0	0	542	0	0	0
Pragasette S.r.l. in liquidation(*)	0	234	0	12	1	0	10	0	0	0	0	0
Pragaundici SIINQ S.p.A.(*)	47	0	0	967	171	96	20	769	34	0	(105)	0
S.A.T.A.C. SIINQ S.p.A.(*)	2,251	0	0	3,162	51	0	20	0	421	0	0	0
Società Agricola La Bollina S.r.l.(*)	626	0	0	0	0	27	1	0	20	0	(30)	0
Sedea SIIQ S.p.A.(*)	0	0	0	0	0	0	20	0	0	0	0	0
The Market Propco S.r.l.	0	0	0	169	0	0	169	0	0	0	0	0
Total parent company, subsidiaries and associates	**47,982**	**234**	**0**	**6,240**	**11,044**	**5,942**	**610**	**1,208**	**2,578**	**(592)**	**(136)**	**(357)**
Other related parties												
Arepo Ad S.à.r.l.	0	0	0	1	0	0	0	1	0	0	0	0
Augusto S.p.A.	0	0	0	0	0	0	0	0	0	0	0	0
Banca Profilo S.p.A.	0	0	9,371	0	4,875	57	0	0	0	(754)(**)	0	(277)
Dentons Europa Studio Legale Tributario	0	0	0	0	0	1	0	0	0	(53)	0	0
Sator Immobiliare SGR S.p.A.	0	0	0	248	0	23	156	4	0	0	(91)	0
Società Investimenti Mobiliari Uno SS	0	0	0	0	682	2	0	0	0	0	0	(2)
Tiepolo S.r.l.	0	0	0	0	0	0	0	1	0	0	0	0
Vi-Ba S.r.l.	0	0	0	1	0	0	0	1	0	0	0	0
Total other related parties	**0**	**0**	**9,371**	**250**	**5,557**	**83**	**156**	**7**	**0**	**(807)**	**(91)**	**(279)**
Total related parties	**47,982**	**234**	**9,371**	**6,490**	**16,601**	**6,025**	**766**	**1,215**	**2,578**	**(1,399)**	**(227)**	**(636)**

(*) Companies subject to the direction and coordination of Augusto S.p.A..
(**) Of which costs capitalized on the bond and subject to amortized cost of Euro 262 thousand towards Augusto S.p.A. and Euro 754 thousand towards Banca Profilo S.p.A..

Transactions with related parties were conducted at market value.

The overall fees resolved for the Directors, including Directors with proxies, Statutory Auditors and Key Management Personnel are shown in the table below:

(Euro/000)	Aedes SIIQ S.p.A.	Subsidiaries and associates	Total
Fees to members of the Board of Directors	2,311	0	2,311
of which paid back	0	0	0
Fees to members of the Board of Statutory Auditors	96	56	152
Fees to Directors and Statutory Auditors for positions held in the Supervisory Body	45	0	45
of which Directors of Aedes SIIQ S.p.A.	0	0	0
of which Statutory Auditors of Aedes SIIQ S.p.A.	45	0	45
	2,452	**56**	**2,508**

For further details, reference should be made to the Remuneration Report of the Company, prepared pursuant to art. 123-ter of the TUF, which will be published pursuant to the law also on the Company website.

Augusto S.p.A. exercises the direction and coordination activities of the Aedes Group, in accordance with art. 2497 and ensuing articles of the Italian Civil Code.

Below are the figures of the most recent financial statements approved by Augusto S.p.A.:

(Euro/000)	31/12/2016	31/12/2015
B) Fixed assets		
1) Start-up and expansion costs	46,567	46,567
- Accumulated amortization	(18,627)	(9,313)
Total intangible fixed assets	27,940	37,254
III. Financial fixed assets		
1) Investments in:		
a) subsidiaries	101,820,711	101,820,711
Total financial fixed assets	101,820,711	101,820,711
Total fixed assets (B)	**101,848,651**	**101,857,965**
C) Current assets		
II. Receivables		
5-bis) Tax receivables		
within the year	21	43
Total receivables	21	43
IV. Cash and cash equivalents		
1) Bank and postal deposits	36,428	70,064
3) Cash on hand	72	72
Total cash and cash equivalents	36,500	70,136
Total current assets (C)	**36,521**	**70,179**
D) Accrued income and prepayments	**17**	**20**
Total assets	**101,885,189**	**101,928,164**

(Euro/000)	31/12/2016	31/12/2015
Equity and liabilities		
A) Equity		
I. Share capital	44,479,728	44,479,728
II. Share premium reserve	57,490,984	57,490,984
VIII. Retained earnings (losses carried forward)	(414,269)	0
IX. Profit/(Loss) for the year	(259,565)	(414,269)
Total equity (A)	**101,296,878**	**101,556,443**
D) Payables		
3) Payables for Shareholders' contributions		
within the year	5,253	252,248
beyond one year	450,000	0
7) Payables to suppliers	69,493	30,738
9) Payables to subsidiaries		
within the year	32,124	10,731
12) Tax payables		
within the year	1,723	6,465
13) Payables to social security and welfare institutions		
within the year	604	2,215
14) Other payables		
within the year	29,114	69,324
Total payables (D)	**588,311**	**371,721**
Total liabilities	**588,311**	**371,721**
Total equity and liabilities	**101,885,189**	**101,928,164**

(Euro/000)	31/12/2016	31/12/2015
Income statement		
A) Value of production		
5) Other revenue and income	1	1
Total value of production (A)	**1**	**1**
B) Costs of production		
6) For raw and ancillary materials, consumables and goods	0	(33)
7) For services	(244,229)	(400,971)
10) Depreciation, amortization and impairment:		
a) amortization of intangible fixed assets	(9,314)	(9,313)
14) Sundry operating charges	(850)	(1,829)
Total Costs of Production (B)	**(254,393)**	**(412,146)**
Difference between value and costs of production (A+)	**(254,392)**	**(412,145)**
C) Financial income/(Charges)		
16) Other financial income:		
d) income other than above		
from third parties	81	167
17) interest and other financial charges:		
charges from subsidiaries and parent companies	(5,253)	(2,248)
charges from third parties	(1)	(43)
Total financial income and charges (C)	**(5,173)**	**(2,124)**
Profit/(Loss) before taxes	**(259,565)**	**(414,269)**
22) income taxes for the year	0	0
Profit/(Loss) for the year	**(259,565)**	**(414,269)**

5.12 Annex 2 - Fees to the Independent Auditors

The table below provides the fees charged for services provided by Deloitte & Touche S.p.A. and other entities belonging to its network:

(Euro/000)	
Towards the Parent Company:	
a) from the Independent Auditors for the provision of audit services	256
b) from the Independent Auditors:	
for audit services for the issue of a certification	
for provision of other services	100
c) from entities that are part of the network of the Independent Auditors for the provision of other services	
Towards subsidiaries:	
a) from the Independent Auditors for the provision of audit services	150
b) from the Independent Auditors:	
for audit services for the issue of a certification	
for provision of other services	
c) from entities that are part of the network of the Independent Auditors:	
for audit services for the issue of a certification	
for provision of other services	
Total	**506**

5.13 Certification of the Financial Statements[1]

The undersigned Giuseppe Roveda, as Chief Executive Officer, and Alessia Farina, as Financial Reporting Manager of Aedes SIIQ S.p.A., also in accordance with art. 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24th February 1998, certify:

- the adequacy in relation to the characteristics of the Company and
- the effective application of administrative and accounting procedures for the preparation of the financial statements in 2017.

We also certify that:

1. The financial statements:
   a. have been prepared in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to EEC Regulation no. 1606/2002 of the European Parliament and Council of 19th July 2002;
   b. are consistent with the accounting records and books;
   c. give a true and fair view of the financial position and results of operations of the Company.

2. The Directors' Report contains a reliable analysis of the performance, results of operations and the situation of the Issuer, together with a description of the principal risks and uncertainties to which it is exposed.

Milan, 14th March 2018

The Chief Executive Officer	The Financial Reporting Manager
Giuseppe Roveda	Alessia Farina

[1] Pursuant to art. 81-ter of Consob Regulations no. 11971 of 14th May 1999 as subsequently amended and supplemented.

5.14 Independent Auditors' Report

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Aedes SIIQ S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Aedes SIIQ S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of property portfolio

Description of key audit matter

The Company's financial statements include investment properties, measured at fair value according to IAS 40, for Euro 201,4 million and the related net gain from fair value adjustments, recorded in the income statement, equal to Euro 14,6 million. In addition, the Company holds the property portfolio through investments in subsidiaries, associates and joint ventures accounted for using the cost method, whose carrying amount is equal to a total of Euro 153,7 million, and property inventories, measured at the lower of cost and net realizable value, for a value of Euro 1,9 million.

The property portfolio, held by the Company as well as its subsidiaries, associates and joint ventures, includes properties under development, investment properties and inventories held for sale, and the valuation methods and assumptions underlying the determination of fair value and net realizable value with regard to inventories, vary according to the type of investment.

The evaluation process of the property portfolio, conducted by the Directors on the basis of appraisals prepared by independent experts, is complex and derives from variables and assumptions concerning future trends influenced by economic and market conditions that are difficult to forecast. In particular, the assumptions underlying the valuations made by the Directors in relation to the property portfolio mainly relate to the following variables: *(i)* the net cash flows expected from the properties and the relative timing of completion; *(ii)* inflation rates, discount rates and capitalization rates.

Given the materiality of the property portfolio and the complexity and subjectivity of the valuation process conducted by the Directors, with particular regard to the aforementioned variables, we considered the valuation of the property portfolio a key audit matter of the Company's financial statements as at December 31, 2017.

Notes 1, 4, 5 and 10 of the financial statements provide information on investment properties, investments in subsidiaries, investments in associates and joint ventures and inventories held by the Company, respectively. Note 33 and the paragraph "Significant estimates and assumptions", describes the assumptions underlying the valuations relating to the property portfolio.

Audit procedures

As part of our audit, conducted on a sample basis, we have, among other things, carried out the following procedures, also with the support of our evaluation experts:

- developed an understanding of the significant processes and controls implemented by the Company on the selection of the independent experts used by the Directors for the valuation of the property portfolio;
- assessed the competence, capabilities and objectivity of the independent experts by verifying their professional qualifications, examining the terms of their engagements and obtaining information from the Management;
- performed an analysis of the adequacy of the valuation methods and of the reasonableness of the main assumptions adopted for the valuation of the property portfolio through interviews conducted with both the Management and the independent experts as well as through an in-depth analysis and critical reading of the appraisals;
- verified the consistency of the data communicated by the Management to the independent experts with those used in the appraisals;
- performed a comparison of inflation rates, discount rates, capitalization rates and market rents used for the preparation of appraisals with external sources (data and market information available from public sources and comparable transactions);
- verified the mathematical accuracy of the models used by the independent experts for their evaluations;
- verified the adequacy of the information reported by the Company in the explanatory notes with reference to the various types of investments held.

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

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Aedes SIIQ S.p.A. has appointed us on June 10, 2015 as auditors of the Company for the years from December 31, 2015 to December 31, 2023.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Aedes SIIQ S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Aedes SIIQ S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Aedes SIIQ S.p.A. as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Aedes SIIQ S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Giacomo Bellia
Partner

Milan, Italy
April 5, 2018

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

5.15 Board of Statutory Auditors' Report

AEDES SIIQ S.P.A.
Via Morimondo 26 - building 18, 20143 Milan
Subject to direction and coordination by Augusto S.p.A.
Tax code and registration in the Company Register of Milan no. 00824960157
Economic & Administrative Index of Milan no. 112395 - VAT no. 13283620154
Share capital subscribed and fully paid Euro 212,945,601.41

BOARD OF STATUTORY AUDITORS' REPORT AT SHAREHOLDERS' MEETING OF AEDES SIIQ SPA (*hereinafter* "Aedes" and/or the "Company") ON THE FINANCIAL STATEMENTS FOR YEAR ENDING 31ST DECEMBER 2017 PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998 AND ARTICLE 2429 OF THE ITALIAN CIVIL CODE (*hereinafter* the "Report").

Dear Shareholders,
in accordance with the combined provisions of law of article 153 of Legislative Decree no. 58/1998 (hereinafter "TUF") and article 2429 of the Italian Civil Code, the Board of Statutory Auditors is called upon at the Shareholders' Meeting to report on the supervisory activities performed during the year and on any identified omissions and censurable facts. The Board of Statutory Auditors is also called upon to put forward proposals at the Meeting with regard to the financial statements and their approval, as well as on matters within its scope of responsibility.
The Board of Statutory Auditors in office was appointed for the 2015-2017 three-year period by the Shareholders' Meeting held on 10th June 2015, in compliance with the provisions of the bylaws and with applicable regulations.
The term of office of the current Board, therefore, expires on approval of the financial statements for the year ended 31st December 2017.
In 2017, the Board of Statutory Auditors performed its supervisory tasks in compliance with the provisions of current regulations and taking account of the standards of conduct recommended by the National Association of the Italian Accounting Profession, and of Consob recommendations on the matter of corporate auditing and activities of the Board of Statutory Auditors.

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In 2017, Aedes continued to pursue the strategy adopted in 2016, focused on divesting non-strategic and non-performing assets and allocating financial resources available in the income-generating revenue and development portfolios, with an "all-round" business model: from planning, to development and revenue generation, with a constant eye not only on creating value for the Company and its shareholders, but also on creating added value for the communities involved.

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The Board of Statutory Auditors preparing this report provides the following information referred to in Consob communication no. 1025664 dated 6th April 2001 as subsequently amended.

1. INDICATION OF THE MOST SIGNIFICANT OPERATING, FINANCIAL AND EQUITY TRANSACTIONS MADE BY THE COMPANY

In 2017, the Board of Statutory Auditors participated in meetings with the Board of Directors, the Control, Risk and Related Party Transactions Committee, and the Appointments and Remuneration Committee, and received regular information from the Directors on the general progress of operations, the business outlook, and the most significant operating, financial and equity transactions approved and implemented by Aedes, also through Group companies, in accordance with article 150, paragraph I, of the TUF.

The Board of Statutory Auditors can reasonably state that the transactions that were approved and implemented comply with the law and the bylaws, and that they are not imprudent, rash, potentially in conflict with interests (save for a declaration and conduct as per article 2391 of the Italian Civil Code), in conflict with resolutions adopted by corporate bodies or, in any case, such that would compromise the integrity of the Company's assets.

For the sake of information, the following is a summary of the main transactions performed in 2017; in this regard, mention should be made that the Directors' Report on Operations, the content of which is referred to, provides an exhaustive description of these transactions and the reasons leading the Board of Directors to take such action.

30th March 2017: Aedes concluded a town-planning agreement with the Municipality of Caselle for the development of the Turin-Caselle Torinese area held through the 100% owned subsidiary Satac SIINQ S.p.A.;

11th April 2017: Aedes concluded a loan agreement with ING Bank N.V. and Unicredit S.p.A. for a total of Euro 56 million on an owned portfolio worth approximately Euro 111 million. The loan was granted in two tranches of Euro 52 million and Euro 4 million: approximately Euro 39 million drawn down to repay existing loans and to cover the costs of the transaction; approximately Euro 17 million to finance the renovation of guarantee assets and for new investment property;

12th April 2017: Aedes concluded an agreement with professional investors on the issue of a non-convertible bond of Euro 15 million, finalized on 20 April 2017 and fully subscribed at 31st December 2017.

The bond has an 18-month maturity, with the possibility of extending the loan for a further 18 months, at a 3-month Euribor rate plus a 5% spread;

20th April 2017: Aedes concluded a shareholder loan agreement of Euro 10 million with the controlling shareholder Augusto S.p.A.; the loan expires on 31th October 2018, with the possibility of extending the loan for a further 18 months, at a 3-month Euribor rate plus a 5% spread;
27th April 2017: the Shareholders' Meeting of Aedes (i) approved by majority the Parent Company's financial statements and the consolidated financial statements of the Aedes SIIQ Group at 31st December 2016, and (ii) authorized the Board of Directors to purchase and dispose of treasury shares, pursuant to art. 2357 and 2357-ter of the Italian Civil Code, to art. 132 of the TUF, and to art. 144-bis of the Regulations approved by Consob through resolution 11971/1999 as subsequently amended and supplemented;
23th May 2017: Aedes concluded an agreement with Herald Level 2 Lux Holding Sarl on the purchase of 100% of Retail Park One S.r.l., owner of the Serravalle Retail Park, for a price of Euro 39.1 million. The acquisition was made through a loan of Euro 27 million - granted by a pool of banks - and for the residual amount through financial resources held by Aedes;
21th June 2017: the Board of Directors of Aedes resolved to renew the programme to provide liquidity support to the Aedes SIIQ share until 31st December 2017, appointing INTERMONTE SIM S.p.A. as Liquidity Provider;
20th July 2017: a deed was concluded for the merger by incorporation of Praga Service Real Estate S.r.l. into Praga Construction S.r.l. (now Praga RES S.r.l.), effective as from 1st August 2017;
3th August 2017: the deed of merger by incorporation of Redwood S.r.l. and Cascina Praga SIINQ S.p.A. into Aedes was entered in the Company Register;
12th September 2017: BG Asset Management S.A., as Leading Sponsor, together with Dea Holding S.r.l. and VLG Capital S.r.l., concluded an agreement for the inclusion of Aedes in the capital of the companies involved in "The Market San Marino";
27th September 2017: the Shareholders' Meetings of Retail Park One S.r.l. and Novipraga SIINQ S.p.A. approved the merger by incorporation of Retail Park One S.r.l. into Novipraga SIINQ S.p.A.;
25th October 2017: Aedes, BG Asset Management S.A. (Borletti Group), Dea Holding S.r.l. and VLG Capital S.r.l. signed the closing of the investment agreements on "The Market San Marino";
28th November 2017: Aedes SIIQ signed the preliminary contract for the purchase from the Obelisco Real-Estate Fund, managed by InvestiRE SGR S.p.A., of two office towers located in Via Richard, Milan. The investment was finalized on 28th December 2017;
6th December 2017: a further investment agreement was concluded with BG Asset Management S.A. (Borletti Group), Dea Holding S.r.l., VLG Capital S.r.l. and Yesgo SARL, on the entire equity commitment of "The Market San Marino" initiative, with an investment for Aedes of Euro 23.6 million;
18th December 2017: (i) the "Aedes SIIQ S.P.A. 5% 2017 - 2019" bond issued on 20th December 2017 with a nominal value of Euro 30 million was successfully placed on the

Extramot-PRO market; (ii) Aedes SIIQ S.p.A. concluded an agreement with UniCredit S.p.A. to take out a mortgage loan of Euro 45.1 million to refinance Phase A and B of the Serravalle Retail Park for Euro 32 million, and to finance the development of Phase C for approximately Euro 13.1 million. The loan will repay the bridge loan granted by a pool of banks upon closing of the purchase of Phase A and B of the Serravalle Retail Park for Euro 27 million, as well as a short-term loan of Euro 4 million on Phase C of the Serravalle Retail Park development project; (iii) Aedes also underwrote the remaining Euro 5 million of the bond issued in April 2017;

21th December 2017: Aedes completed the purchase of the remaining 35% in the Petrarca Fund, with the transfer of the interests held by IFM Italy Office Fund GmbH & Co. KG (20%) and by Ivg Logistics Holding S.A. (15%) to Aedes.

2. ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INTRAGROUP TRANSACTIONS OR TRANSACTIONS WITH RELATED PARTIES

In 2017 and until the date of the Report, the Board of Statutory Auditors did not identify any atypical and/or unusual transactions executed by the Company or through any of its subsidiaries.

The transactions generally undertaken by the Aedes Group with related parties, namely Aedes subsidiaries, joint ventures and associates (so-called **"Intragroup"**), and transactions with other related parties other than Intragroup (so-called **"Other Related Parties"**), consist mainly in administrative, property and technical services conducted at normal market conditions, in addition to the loans granted by Group companies to their related companies, which bear interest at rates generally applied to similar transactions.

Transactions with related parties were carried out and are carried out at market conditions and in compliance with the provisions set out in the specific procedure reviewed by the Board of Directors on 19th October 2016. In 2017, the Company reported net costs of Euro 1,014 thousand, arising from transactions with Other Related Parties, mainly for property services on a number of development projects and for lending transactions undertaken by the Parent Company. The effects of transactions with related parties are shown in the Statement of Financial Position, the Income Statement and in the relevant explanatory notes. In any case, mention should be made that these transactions were made further to specific close examination and/or approval by the Board of Directors and the Control, Risk and Related Party Transactions Committee, whose meetings were regularly attended by the Board of Statutory Auditors.

In particular, in 2017, in compliance with applicable regulations and in accordance with the procedures adopted by Aedes, the Company also approved the following transactions with related parties:

(i) loan granted by the Parent Augusto S.p.A.;
(ii) proposed amendment of the framework agreement with Sator Immobiliare SGR S.p.A. (former Aedes Real Estate SGR S.p.A.), on behalf of the Leopardi Fund, regarding trade and financial receivables claimed by Aedes;
(iii) mutual termination of the supply contract for equipped areas in place between Aedes and

Sator Immobiliare SGR S.p.A.;
(iv) appointment as Placement Agent of Banca Profilo S.p.A..

3. ASSESSMENT ON THE SUITABILITY OF INFORMATION PROVIDED BY DIRECTORS ON ATYPICAL AND/OR UNUSUAL TRANSACTIONS, INCLUDING INTRAGROUP TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES

The Board of Statutory Auditors deems the information provided by the Directors on the above transactions to be sufficiently suitable, including therein the information provided in the financial statements and consolidated financial statements for the year ended 31st December 2017.

4. OBSERVATIONS AND PROPOSALS ON REMARKS OR REQUESTS FOR INFORMATION CONTAINED IN THE INDEPENDENT AUDITORS' REPORT

The Shareholders' Meeting held on 10th June 2015 resolved to assign the statutory audit task for 2015-2023 to Deloitte & Touche S.p.A., following expiry of the task previously assigned to Reconta Ernst & Young S.p.A., without possibility for renewal, in accordance with law.
The financial statements and consolidated financial statements for the year ended 31st December 2017 were drawn up in compliance with the International Accounting Standards (IAS/IFRS) issued by the International Accounting Standards Board ("IASB") approved by the European Union, as well as with the provisions issued in implementation of article 9, Legislative Decree no. 38/2005.
The financial statements and consolidated financial statements for the year ended 31st December 2017 were audited by the above Independent Auditors who issued, on 5 April 2018, their certifications pursuant to article 14 of Legislative Decree 39/2010 and to article 10 of Regulation (EU) 537/2014.
Following the amendments to the legislation on statutory audit, the audit report was reviewed in both form and content.
With regard to opinions and certifications, in its statutory audit report, Deloitte and Touche S.p.A.:

(i) issued an opinion based on which the financial statements and the consolidated financial statements for the year ended 31st December 2017 give a true and fair view of the financial position, results of operations and cash flows, in accordance with the provisions set out in the IFRS, and with the provisions issued in implementation of article 9 of Legislative Decree no. 38/2005;
(ii) issued an opinion on consistency based on which the Directors' Report on Operations complementing the financial statements and the consolidated financial statements for the year ended 31st December 2017, and certain specific information contained in the Report on Corporate Governance and Ownership Structure pursuant to article 123-*bis*, paragraph 4 of the TUF, were drawn up in accordance with law;
(iii) declared, pursuant to article 14, paragraph 2, letter e) of Legislative Decree 39/2010, that - based on the knowledge and understanding of the Company and of the relevant context (information gained from its audit activities) - there is nothing to report.

On 28th March 2018, Deloitte & Touche S.p.A. also submitted to the Board of Statutory Auditors, in its capacity as Internal Control and Audit Committee (hereinafter **"ICAC"**), the additional Report pursuant to and in accordance with article 11 of Regulation (EU) no. 537/2014, which shows no noteworthy deficiencies in the internal control system regarding the financial disclosure process to be brought to the attention of the subjects in charge of governance activities.
In its additional report, Deloitte and Touche S.p.A. also submitted to the Board of Statutory Auditors its independence statement, in accordance with the provisions set out in article 6 of Regulation (EU) 537/2014, which shows the absence of situations compromising its independence.

5. INDICATION OF ANY CHARGES EVENTUALLY SUBMITTED AS PER ARTICLE 2408 OF THE ITALIAN CIVIL CODE, AND INITIATIVES TAKEN

In 2017 and until the date of the Report, no charges were submitted as per article 2408 of the Italian Civil Code. Therefore, no initiative was taken by the Board of Statutory Auditors in this sense.

6. INDICATION OF ANY COMPLAINTS EVENTUALLY LODGED IN RELATION TO UNDERTAKEN INITIATIVES AND COSTS THERETO

In 2017 and until the date of the Report, no complaints were lodged by Shareholders and/or third parties. Therefore, no initiative was taken by the Board of Statutory Auditors in this sense.

7. INDICATION OF ANY ADDITIONAL SUPPLEMENTARY TASKS ASSIGNED TO THE INDEPENDENT AUDITORS AND COSTS THERETO

As mentioned in point 4 of the Report, in 2017 and at the date of the Report, the Board of Statutory Auditors, in its capacity as the ICAC, took note of the material changes in legislation regarding statutory audit (see Regulation EU 537/2014). These changes envisaged, *inter alia*, for Aedes, as EIP, greater interaction between the Independent Auditors and the Board of Statutory Auditors, also through ongoing oversight of the activities performed by Deloitte & Touche S.p.A. and/or its network of companies, differing between audit and other services and, in connection to the latter, between services permitted and those prohibited pursuant to article 5 of the above Regulation.
At the date of this Report, in accordance with the above legislation, with regard to the assignment of (permitted) tasks other than audit, the Board of Statutory Auditors assessed and oversaw the independence of the Independent Auditors, issuing appropriate and specific opinions such as, *inter alia*:

(i) for the assignment to Deloitte & Touche S.p.A. of the task involving consulting to Aedes for methodological support in the preparation of the 2017 Financial Statements/Sustainability Section;
(ii) for the assignment to Deloitte Financial Advisory S.r.l. of the task involving updates to the benchmark analysis carried out in 2017 regarding financial disclosure of the main listed real-estate companies included in the panel of firms in the *"Epra Annual Report Survey"*;

(iii) for the assignment to Deloitte & Touche S.p.A. of the task involving consulting to Aedes for methodological support in the analysis of the impacts arising from the application of the new IFRS 15 and IFRS 16 on the Group's consolidated financial statements for the purposes of disclosure of the 2017 financial statements.

The fees for 2017 acknowledged by Aedes and its subsidiaries to Deloitte & Touche S.p.A. and to the companies forming its network for statutory audit and other services are shown in detail by the Directors in the statement prepared pursuant to article 149-duodecies of Consob Regulation no. 11971/1999 contained in Annex 5.12 to the statements and explanatory notes to the financial statements, and in Annex 4.17 to the consolidated financial statements.

In light of the independence statement issued by Deloitte & Touche S.p.A. and of the tasks assigned by Aedes and Group subsidiaries to the Independent Auditors, the Board of Statutory Auditors believes there are no reasons to exclude the independence of the Independent Auditors.

8. INDICATION OF ANY ADDITIONAL TASKS ASSIGNED TO PARTIES HAVING AN ONGOING RELATIONSHIP WITH THE INDEPENDENT AUDITORS, AND COSTS THERETO

Reference should be made to point 7 of the Report.

9. INDICATION OF THE EXISTENCE OF OPINIONS ISSUED PURSUANT TO LAW IN 2017 BY THE BOARD OF STATUTORY AUDITORS

In 2017, the Board of Statutory Auditors issued its opinions in accordance with the provisions of law, the bylaws and applicable regulations. In addition to point 7 above, at the date of the Report, the Board of Statutory Auditors took note of issuing, *inter alia*:

(i) an opinion on the proposed amendment of the framework agreement with Sator Immobiliare SGR S.p.A. (former Aedes Real Estate SGR S.p.A.), on behalf of the Leopardi Fund, regarding trade and financial receivables claimed by Aedes SIIQ S.p.A.;
(ii) an opinion on the appointment of Gabriele Cerminara as Group COO and CIO;
(iii) an opinion on the appointment of Mr. Lucaroni as Chief Financial Officer and Financial Reporting Manager;
(iv) an opinion on the appointment of Giuseppe Roveda, Chief Executive Officer, as interim Chief Financial Officer
(v) an opinion on the appointment of Alessia Farina, Head of Administration, as interim Financial Reporting Manager;
(vi) an opinion on the appointment of Achille Mucci as Chief Financial Officer with immediate effect and as Financial Reporting Manager with effect subsequent to approval by the Board of Directors of the draft financial statements for 2017;
(vii) an opinion on the renewal of the assignment to PricewaterhouseCoopers Advisory S.r.l., in the person of Mario Cristina, with regard to the outsourcing of the Company's Internal Audit services for 2018.

10. INDICATION ON THE FREQUENCY AND NUMBER OF MEETINGS HELD BY THE BOARD OF DIRECTORS, EXECUTIVE COMMITTEE AND BOARD OF STATUTORY AUDITORS

As pointed out by the Directors in the annual Report on Corporate Governance and Ownership Structure for 2017, drawn up in accordance with article 123-*bis* of the TUF and approved by the Board of Directors of the Company on 14th March 2018, in 2017:

(i) the Board of Directors of the Company met 18 times;
(ii) the Control, Risk and Related Party Transactions Committee met 12 times;
(iii) the Appointments and Remuneration Committee met 4 times;
(iv) the Finance and Investments Committee met 4 times.

The Board of Statutory Auditors in 2017 met 8 times.

Additionally, the Board of Statutory Auditors attended all the meetings held by the Board of Directors, the Control, Risk and Related Party Transactions Committee, and the Appointments and Remuneration Committee, in the presence of the Chairman of the Board of Statutory Auditors and/or at least one member of the Board of Statutory Auditors.

11. OBSERVATIONS ON COMPLIANCE WITH CORRECT ADMINISTRATION PRINCIPLES

Within its scope of responsibilities, the Board of Statutory Auditors oversaw compliance with the principles of correct administration. In the opinion of the Board of Statutory Auditors, the Company is directed in compliance with the provisions of law and the bylaws.

The division of powers and proxies - in their current allocation - appears to be suitable to the size and operations of the Company.

In particular, also with regard to the decision-making processes of the governing body, the Board of Statutory Auditors assessed, also through direct participation in meetings, the compliance of managerial decisions made by the Directors with the law and bylaws. The Board of Statutory Auditors also verified that the relating decisions were backed by specific analyses and opinions drawn up – where the case - also by consultants, with particular regard to the economic and financial fairness of transactions and their alignment with the Company's interest.

12. OBSERVATIONS ON ORGANIZATIONAL STRUCTURE

Within its scope of responsibilities, the Board of Statutory Auditors oversaw the suitability of the Company's organizational structure and its relating operation.

The organizational structure is appropriate to the size and operational needs of the Company.

To the best of its knowledge, the Board did not identify any particular vulnerabilities or situations to report on the actual operation of bodies, functions, systems and procedures.

The organization and services, both those structured within Aedes and those subject to outsourcing, are adequate and fulfil more than satisfactorily the necessary obligations.

With particular regard to the committees of an organizational and procedural nature established in accordance with Legislative Decree no. 231/2001, the Board of Statutory Auditors notes that on 11th June 2015, the Board of Directors of the Company resolved to assign to the Board of Statutory Auditors of Aedes - in accordance with the provisions of art.

6, paragraph 4-*bis*, Legislative Decree no. 231/2001 - the functions of Supervisory Body until expiration of the term of such body.

For the sake of information, mention should be made that in 2017 and at the date of the Report, the Board took note, *inter alia*, of the following changes in the Group's organizational structure:

(i) the appointment of Gabriele Cerminara as Group COO and CIO;
(ii) the appointment of Mr. Lucaroni as Chief Financial Officer and Financial Reporting Manager and his following resignation on 29th June;
(iii) the appointment of Giuseppe Roveda, Chief Executive Officer, as interim Chief Financial Officer;
(iv) the appointment of Alessia Farina, Head of Administration, as interim Financial Reporting Manager.

As anticipated, mention should be made that on 24th January 2018, the Board of Directors of Aedes resolved on the appointment of Achille Mucci as Chief Financial Officer with immediate effect and as Financial Reporting Manager with effect subsequent to approval by the Board of Directors of the draft financial statements for 2017.

The Board of Statutory Auditors did not identify particular vulnerabilities to report and/or material considerations to express on the organizational structure.

13. OBSERVATIONS ON THE SUITABILITY OF THE INTERNAL CONTROL AND ADMINISTRATIVE-ACCOUNTING SYSTEM AND ITS RELIABILITY IN CORRECTLY REPRESENTING COMPANY OPERATIONS

The Board of Statutory Auditors oversaw the suitability of the Company's internal control system and in its capacity as the ICAC, to which reference is made to point 7 above.

In its ongoing monitoring of the progress on the review of company procedures to date still in progress, the Board of Statutory Auditors, nonetheless, continued to perform its supervisory activities through: (i) exchange of information received on occasion of the periodic meetings with the Head of Internal Audit; (ii) exchange of information with the Control, Risk and Related Party Transactions Committee (and, in particular, through review of the report on activities performed by said Committee, and continuous participation in meetings held by the Committee); (iii) exchange of information with the Director in charge of Internal Control (and, in particular, through review of the report on activities performed by said Director); (iv) review of company documents and the results of work performed by the Independent Auditors, Deloitte & Touche S.p.A.; (v) information acquired from the supervisory bodies of the subsidiaries in accordance with and for the intents and purposes of article 151, paragraph 1 and 2, of the TUF.

Under the above process, it should be noted that in 2017, *inter alia*, the Board reviewed and/or approved the following procedures:

(i) scouting of new investment/divestment opportunities and definition of property assets strategies;
(ii) implementation of property investment and divestment decisions;

(iii) management of property assets;
(iv) management of relations with PA.

For the sake of information, mention should additionally be made that:
(a) in light of the amendments set out in Legislative Decree no. 231/2001 and, specifically, of the new offences covered by the so-called "predicate offences", and the changes that have taken place in the Company's organizational structure, Aedes updated the Organizational, Management and Control Model adopted in December 2016, approving the new version in the meeting held on 27th March 2018;
(b) at the date of the Report, the Board of Directors resolved on renewing the task regarding the outsourcing of Internal Audit services to PricewaterhouseCoopers Advisory S.p.A., under the same conditions of the previous assignment and prior to new assessment, with the relevant bodies, of the meeting of the necessary independence requirements of the above company to fulfil the above task;
(c) in light of the entry into force, on 25th May 2018, of Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, Aedes had already taken steps from the second half of 2017 to align with the above Regulation.

14. OBSERVATIONS ON THE SUITABILITY OF THE ADMINISTRATIVE-ACCOUNTING SYSTEM AND ITS RELIABILITY IN CORRECTLY REPRESENTING COMPANY OPERATIONS

The Board of Statutory Auditors oversaw the adequacy of the administrative-accounting system with regard to its reliability to correctly represent operations, by obtaining information from the relevant heads of departments, examining corporate documents and analyzing the results of the work carried out by the Independent Auditors, as well as by Internal Audit.
The administrative-accounting function appears to be well-structured and suited to meet business needs, both in terms of resources employed and professionalism.
With regard to the accounting information contained in the financial statements and in the consolidated financial statements at 31st December 2017, it should be noted that the Chief Executive Officer and the Financial Reporting Manager have issued certifications without remarks, under art. 81-*ter* of Consob Regulation no. 11971/1999 as amended, in relation to the adequacy and effective application of the administrative- accounting procedures for the preparation of the financial statements and consolidated financial statements, prepared in accordance with applicable international accounting standards, in accordance with the books and accounting records and capable of giving a true and fair view of the financial position and results of operations of the Company and of the companies included in the consolidation, and the contents of the Directors' Report on Operations, including a reliable analysis of the performance and results of operations, as well as a description of the risks and uncertainties to which the companies of the Aedes Group are exposed.

15. OBSERVATIONS ON THE SUITABILITY OF INSTRUCTIONS GIVEN TO SUBSIDIARIES PURSUANT TO ARTICLE 114 OF LEGISLATIVE DECREE NO. 58/98
The Board of Statutory Auditors oversaw the suitability of the instructions given by the Company to its subsidiaries pursuant to art. 114 of Legislative Decree no. 58/98, and found them appropriate to comply with the legal communication obligations.
In relation to the stringent operational and functional ties, due also to the presence of Aedes reference persons in the subsidiaries, the correct, consistent and adequate flow of information is guaranteed. Mention should be made that Aedes and the subsidiaries are subject to the direction and coordination of Augusto S.p.A. as from 31th March 2015, and that the administrative bodies of such companies have adopted the so-called "Regulation for the exercise of direction and coordination by Augusto S.p.A. on the Aedes Group".
16. OBSERVATIONS ON MEETINGS HELD WITH THE INDEPENDENT AUDITORS
As mentioned in point 7 in the Report, in 2017 and until the date of the Report, the Board of Statutory Auditors, also in its capacity as the ICAC, met regularly with the representatives of Deloitte & Touche S.p.A. in order to comply with the disclosure obligations set out in article 150 of the TUF.
At these meetings, *inter alia*, the application of the accounting standards and the best allocation and representation in the financial statements of significant income statement, financial and equity components were reviewed.
The Independent Auditors shared with the Board of Statutory Auditors the planning and feedback of its activities. At these meetings, no material aspects were identified such as to be reflected in the Report.
17. ADHESION OF THE COMPANY TO THE GOVERNANCE CODE OF THE CORPORATE GOVERNANCE COMMITTEE
The Board of Statutory Auditors oversaw the compliance with the corporate governance rules set out in the Corporate Governance Code under article 149, paragraph 1, letter c-*bis* of the TUF, adopted by the Company as explained in the 2017 Report on Corporate Governance and Ownership Structure.
For the sake of information, mention should be made that on 13th December 2017, the Chairman of the Corporate Governance Committee sent a letter to the Chairmen, Chief Executive Officers and the Chairmen of the supervisory bodies of listed companies encouraging *"an increasingly informed application of the Code by adhering issuers and, more generally, to promote the advancement of corporate governance by all Italian listed companies irrespective of their formal adhesion or less."*
The letter was brought to the attention of the Chairmen of the Board of Directors, of the Control, Risk and Related Party Transactions Committee, and later to all the Directors and Auditors.
For further details, reference should be made to the 2017 Report on Corporate Governance and Ownership Structure.

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In light of the above, and based on the control activities performed during the year, the Board of Statutory Auditors expresses a positive opinion on the approval of the financial statements for the year ended 31st December 2017, and has no objections to make regarding the allocation of profit for the year proposed by the Board of Directors.

Milan, 5th April 2018

Yours sincerely,

The members of the Aedes SIIQ S.p.A. Board of Statutory Auditors

Cristiano Agogliati

Sabrina Navarra

Fabrizio Capponi

Aedes SIIQ S.p.A. - Company subject to direction
and coordination of Augusto S.p.A. – Registered Office in Milan,
Via Morimondo n. 26 – Builiding 18
Subscribed and paid-in share capital Euro 212,945,601.41
Milan Companies' Register and Tax Code no. 00824960157
Milan Chamber of Commerce no. 112395
VAT no. 13283620154

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Graphic project: **Vertigo Design**

AEDES SIIQ
COMMERCIAL PROPERTIES