Cassa di Compensazione e Garanzia S.p.A.

Financial statements for the year ended 31 December 2017

1. Financial highlights

(Amounts in thousands Euro)

Economic indicators	Financial Year 01/01/17 - 31/12/17	Financial Year 01/01/2016 - 31/12/2016
Revenues	90,131	102,295
Ebitda	62,339	80,141
Ebitda margin	*69.2%*	*78.3%*
Ebit	67,700	81,848
Ebit margin	*75.1%*	*80.0%*
Net Profit	45,286	55,252
(in % of Revenues)	*50.2%*	*54.0%*
ROE	26.2%	31.9%
Dividends	43,010	52,470
Equity Indicators	Financial Year 01/01/17 - 31/12/17	Financial Year 01/01/2016 - 31/12/2016
Shareholders' Equity	167,894	178,106
Net Fin. Position (- debt / + cash)	232,190	211,604
Efficiency indicators	Financial Year 01/01/17 - 31/12/17	Financial Year 01/01/2016 - 31/12/2016
Average number of employees	58	54
Revenues/employees	1,554	1,912
Ebit/employees	1,167	1,530

2. Report on operations

The financial statements of Cassa Compensazione e Garanzia S.p.A., closed as of 31 December 2017, show a positive net result of € 45,285,966 (€ 55,252,103 as of 31 December 2016).

The past year was characterised by CC&G's further contribution to extending the financial services provided by market infrastructures and improving the management of information flows and arrangements with members. Moreover as regards the aspects of risk management and in particular the "validation model", activities suitable to its implementation were continued.

In terms of market conditions, the past year was characterised by extremely low market volatility (the average volatility of the FTSE MIB index in 2017 was 14%, with a peak of 13.6% in December). The underlying reasons are primarily twofold: firstly, the continuation of central banks' expansionary monetary policies with the direct effect of lowering short-term interest rates and, secondly, a recovery in the real economy explained by slow inflation growth.

Low returns that interact with a high liquidity level and a slow economic recovery led to a constant reduction in market volatility and consequently in trading volumes with a moderate impact on operating revenues compared to the results at 31 December 2016.

The past year was also marked by adjustments to the provisions of Regulation (EU) 600/2014 on markets in financial instruments (MiFIR). MiFIR has introduced the clearing obligation for derivatives traded on the stock exchange, providing the European Commission with a mandate to adopt regulatory technical standards on indirect clearing agreements relating to such instruments (see Article 30 MiFIR).

The European Commission's Delegated Regulation of 22 September 2017, currently being finalised, introduces the following regulatory framework areas for indirect clearing agreements: (i) structuring of accounts and the models for segregating them; and (ii) the procedures to be adopted in the event of non-compliance.
CC&G has developed new types of segregated accounts for this purpose with the aim of strengthening investor protection.

As far as services are concerned, during the year functional adjustments have been made for the purpose of more efficient management of activities carried out. As regards initiatives for the outsourcing of central counterparty services, in 2017 CC&G was asked by the Austrian central counterparty to provide the technological service of the clearing system in the form of the "Software as a Service" (SaaS) model in compliance with EMIR standards, replacing the current system provided by London Stock Exchange. After an initial service technical definition phase, the final contract was drawn up and will be signed by the legal representatives of the two companies in February 2018.

CC&G also participated in the Request for Quotation issued by the Casablanca Stock Exchange in order to support the start-up of the central counterparty in Morocco. CC&G has been selected as a partner to offer a consulting and capacity building service to allow the customer to equip itself with the structure and regulatory framework in compliance with EMIR standards. Following a negotiation phase, the related contract is expected to be signed during the first months of 2018.

Following the preliminary visit of a CC&G delegation to Lagos, during which the perimeter of the service required was determined by the Nigerian Stock Exchange (NSE), CC&G negotiated the provision of a service with the dual purpose of enabling the NSE to start up a Nigerian central counterparty through the support of CC&G, based on its more than twenty years of experience, as well as the subsequent technological outsourcing of the clearing system, again in the form of the "Software as a Service" model. Commercial negotiations on the terms of the contract are currently underway.

2.1 Events of the year ended 31 December 2017

Central counterparty services

Participants in the clearing and guarantee system as of 31 December 2017 totalled 151 (160 at 31 December 2016), represented for the most part by Banks (89) and Investment firms (49), 9 private companies, 2 State-controlled Companies, 1 Stock Exchange Company and finally a CCP.

Of these, 84 were clearing members, of which 69 were Banks, 13 Investment firms and 2 were State-controlled Companies. The degree of openness to the European market of clearing members is shown by the share of foreign Banks (16 EU) amounting to 19.04% of the overall total of Banks, and of EU Investment firms (9) amounting to 69.23%.

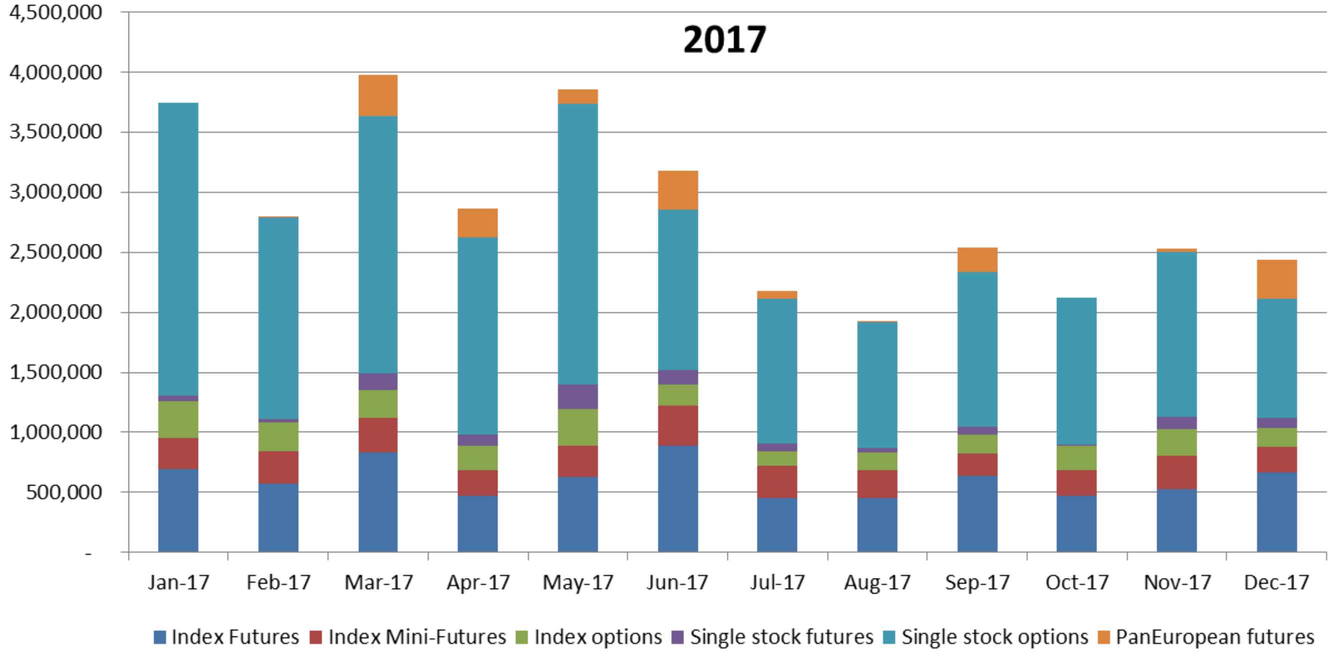
Derivatives sections (IDEM Equity, IDEX and AGREX)

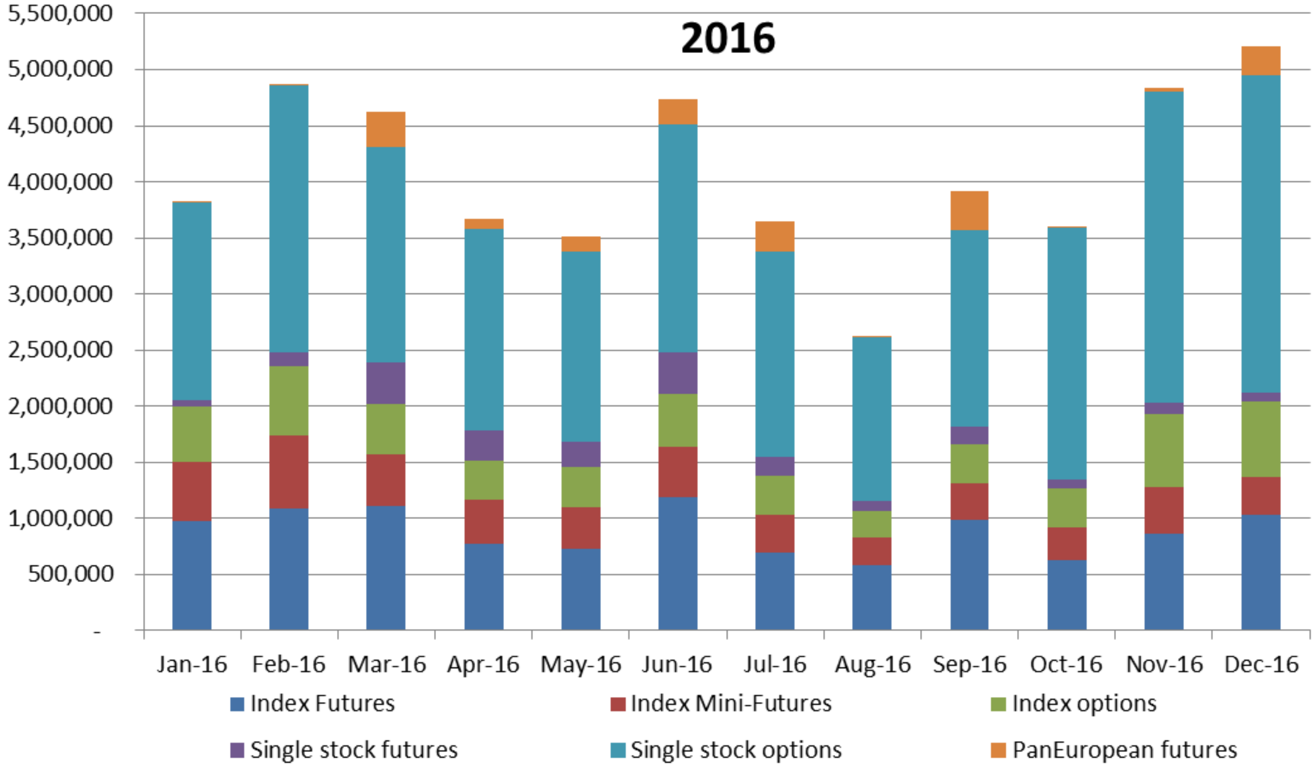
The number of cleared contracts on the IDEM Equity Market at 31 December 2017 was 34,153,672, compared to 49,020,292 at 31 December 2016 (-30.3%); the daily average was 134,995 contracts compared to 192,236 contracts at 31 December 2016.
There were decreases in almost all instruments compared to the same period last year:

- Stock market index options, which fell from 5.4 million in 2016 to 2.5 million contracts in 2017 (-53.7%);
- futures on individual shares, which fell from 2.1 million in 2016 to 1.0 million contracts in 2017 (-52.6%);
- mini-futures on stock market indices fell from 4.8 million contracts in 2016 to 3.0 million contracts in 2017 (-36.5%);
- stock market index futures, which fell from 10.6 million in 2016 to 7.3 million contracts in 2017 (-31.6%);
- options on individual shares fell from 24.5 million in 2016 to 18.7 million contracts in 2017 (-23.8%).

On the other hand, there was an increase in pan-European futures, with volumes rising from 1.6 million contracts in 2016 to 1.7 million contracts in 2017 (+3.0%).

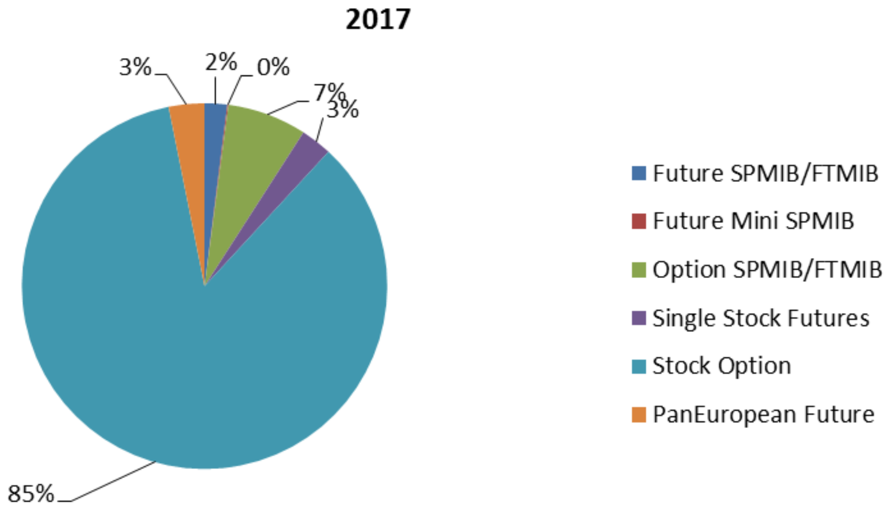
NUMBER OF CONTRACTS
(single counted)

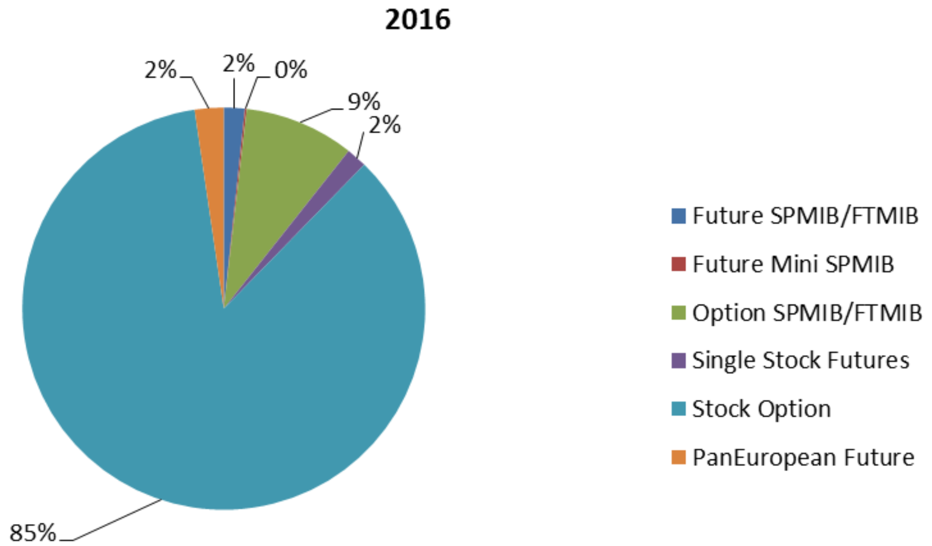




Open positions at 31 December 2017 (so-called open interest) were equal to 4,656,478, 23.8% lower than at 31 December 2016 (6,109,648).

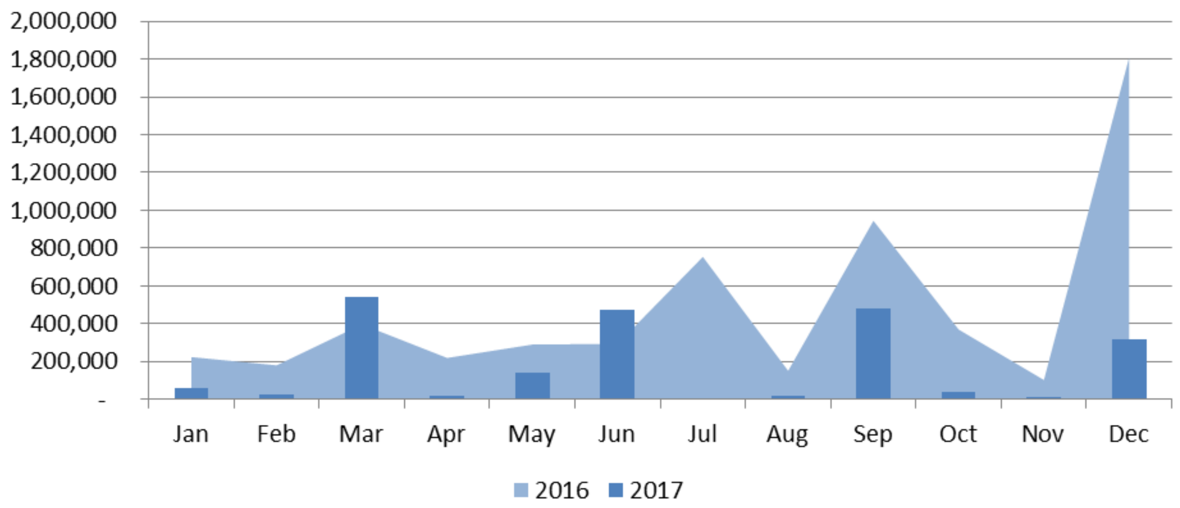
OPEN POSITIONS
(% number of contracts)





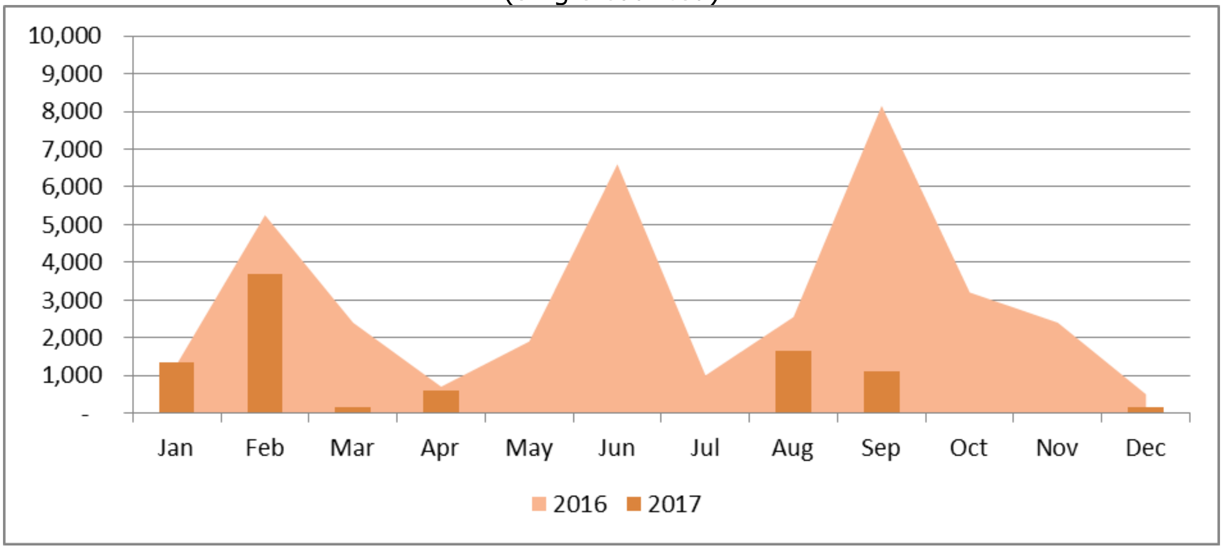
The volumes of the IDEX derivatives section at 31 December 2017 amounted to 2,124,986 MWh cleared, 62.9% lower compared to the same period last year, with 5,724,606 MWh cleared.

MWh cleared
(single counted)



The volumes of the AGREX derivatives section at 31 December 2017 amounted to 8,700 cleared tons, which is 75.8% lower compared to the same period last year, with 35,950 cleared tons.

Cleared tons
(single counted)

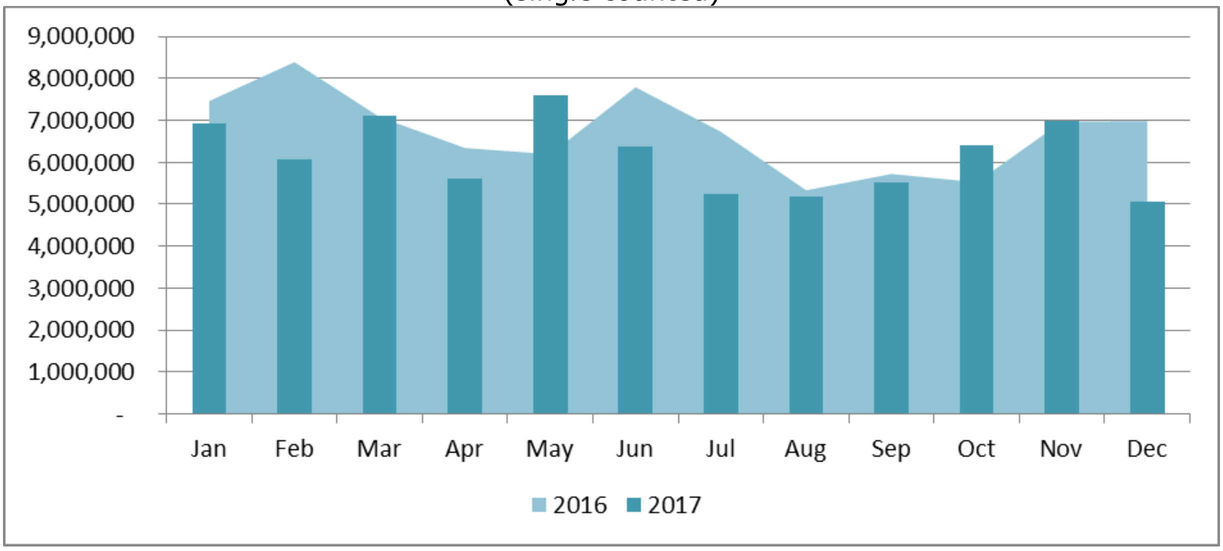


As at 31 December 2017, there were 32 clearing members in the derivative equity section (37 at 31 December 2016), of which 23 were general and 9 individuals; there were 6 in the energy derivatives section, all general, while there were 3 in the agricultural commodities derivatives section, all general. The IDEM, IDEX and AGREX markets are guaranteed in these sections.

Equity section

On the equity markets of Borsa Italiana, 74,111,680 contracts were covered by guarantees, with an increase of 8.0% compared to the same period of the previous year (80,536,016 contracts); the daily average was equal to 292,932 contracts compared to 315,828 the previous year.

NUMBER OF CONTRACTS
(single counted)

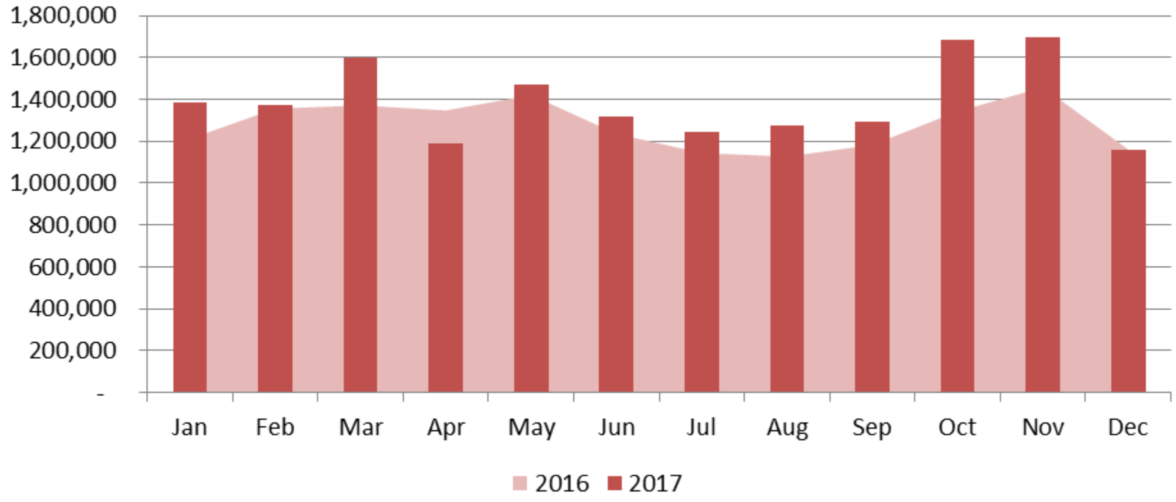


On 31 December 2017 there were 31 clearing members of the equity section (number aligned with the previous year), of which 16 were general and 15 individual. The MTA, ETF plus and MIV markets are guaranteed in this section.

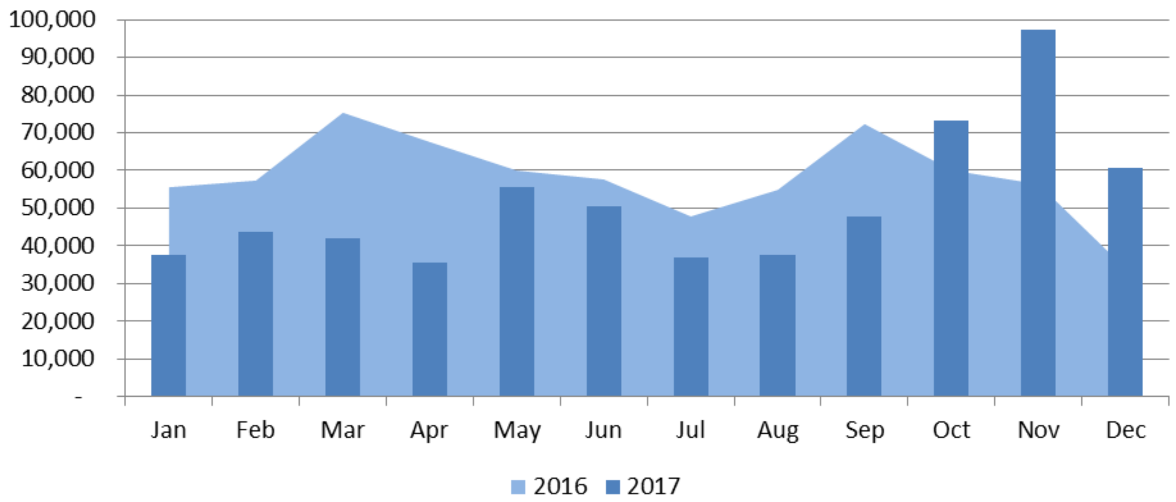
Bond section

The value of the guaranteed contracts, traded on the wholesale bond section was higher than the preceding year for repos (nominal € 16,689 billion compared to € 15,361 billion, with an increase of 8.6%), and lower for cash transactions (nominal € 617.63 billion compared to € 698.63 billion, -11.6%).

NOMINAL VALUE OF CONTRACTS
Wholesale markets
Repo contracts
(million Euro)

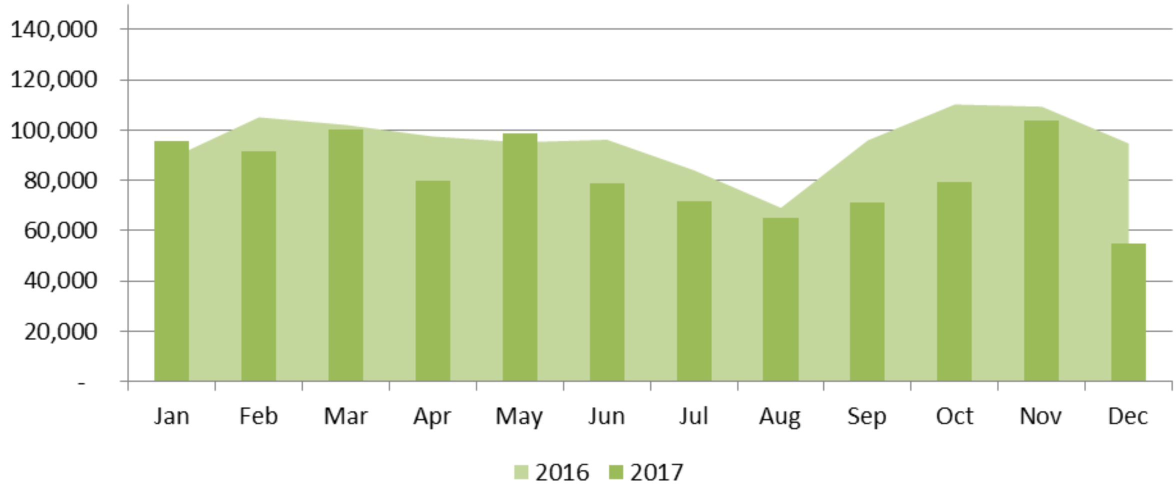


NOMINAL VALUE OF CONTRACTS
Wholesale markets
Cash contracts
(million Euro)

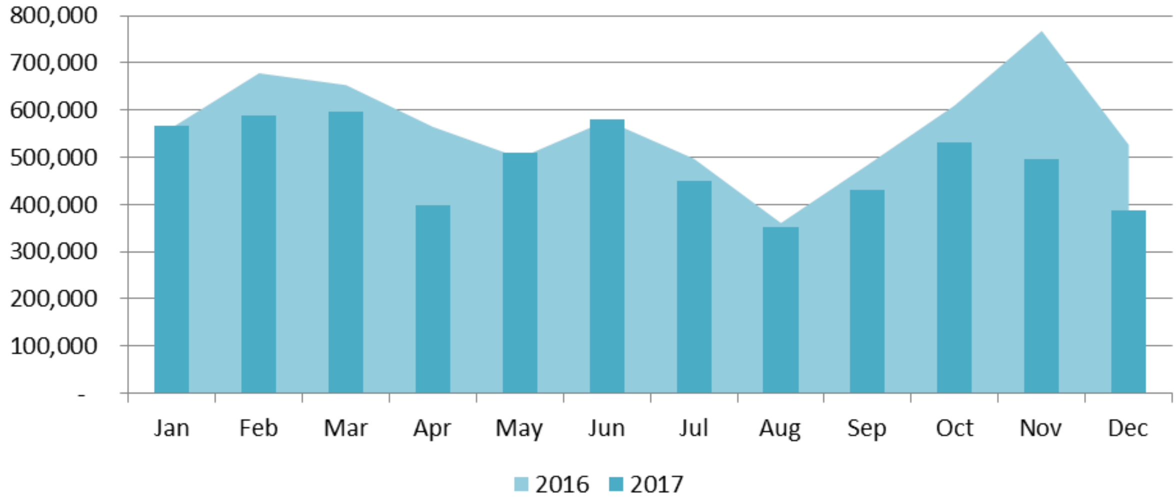


As far as the retail bond section is concerned, the international section (ICSD) was lower compared to the same period of the previous year (989,345 contracts compared to 1,147,568 contracts with a decrease of 13.8%) even the domestic sector was lower compared to the same period in the previous year (5,882,454 contracts compared to 6,783,272 contracts with a decrease of 13.3% from the previous year)

NUMBER OF CONTRACTS
International section retail markets
(single counted)



NUMBER OF CONTRACTS
Domestic section retail markets
(single counted)



There were 67 clearing members in the bond section as of 31 December 2017 (68 as of 31 December 2016), of which 15 were general and 52 individual. In this section the MTS Cash, MTS Repo, Brokertech and Repo e-MID markets are guaranteed for the wholesale segment, and the MOT, Euro TLX and Hi MTF markets for the retail segment.

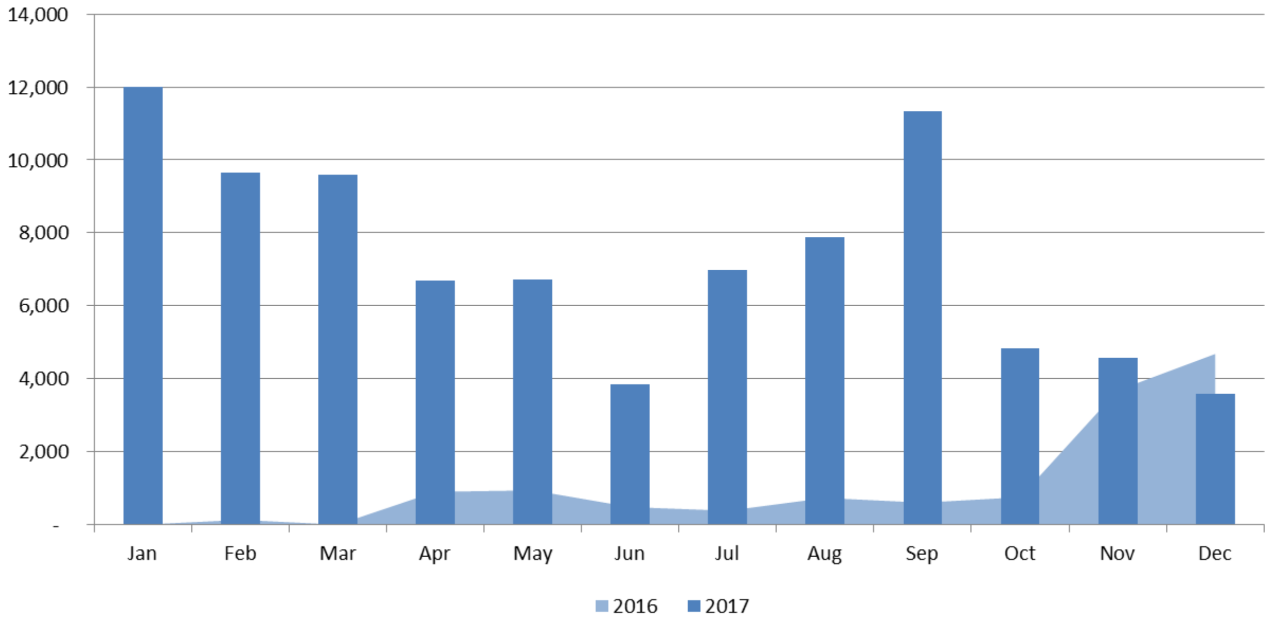
There were 31 clearing members in the ICSD bond section as of 31 December 2017 (29 as of 31 December 2016), of which 14 were general and 17 individual. In this section, the Euro MOT, Extra MOT and Hi MTF markets are guaranteed.

X-Com section

There were 8 clearing members in the X-COM section at 31 December 2017 (7 at 31 December 2016), of which 1 was general and 7 individual.

The value of the contracts covered by the guarantee was significantly higher than in the previous year, with a nominal value of € 87,681 million compared with € 13,271 million in the previous year.

NOMINAL VALUE OF CONTRACTS
(million Euro)



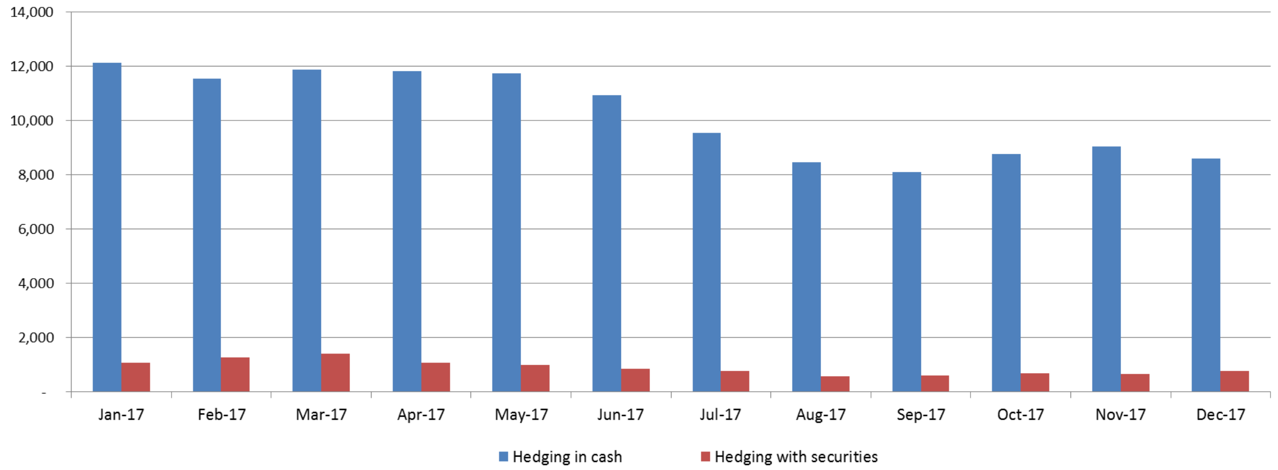
The tri-party Repo markets currently guaranteed by CC&G are the MTS Repo and Repo e-MID markets.

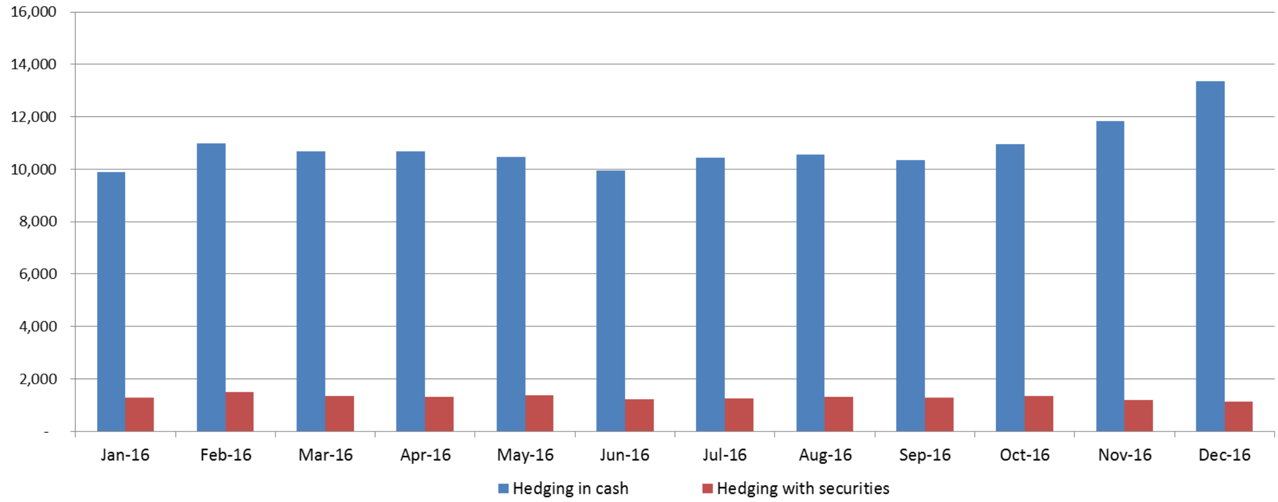
Risk management

During the period under review, 148 new instruments were listed on the equity section, including 114 ETFs, 13 shares on MTA, 17 shares on GEM (formerly MTA INTERNATIONAL), 3 warrants and 1 share of funds. 12 new options were listed on the equity derivatives section; futures on the FTSE Italia PIR Mid Cap TR index were introduced on the same section.

The average daily amount of the initial margins fell from € 13.2 billion in January 2017 to € 9.3 billion in December 2017 (the month in which the maximum value of the average occurred was March 2017 with an average amount of € 13.3 billion). Compared to the daily average of the last financial year (€ 12.1 billion), a 8.7% decrease was recorded at € 11.1 billion. The guarantees deposited to cover the initial margins were, on average for the period in question, 92% in cash and 8% in government bonds (percentages remained unchanged with respect to the previous financial year).

INITIAL MARGINS AVERAGE
(million Euro)





The monitoring of counterparty risk, carried out by verifying the exposures of members on an ongoing basis, resulted in 2,378 requests for intraday additional margins during the year, for a total of € 57.5 billion.

The default funds at 31 December 2017 amounted to:

- € 1,300 million (€ 1,100 million at the end of the previous year, -18%) for the equity markets (Cash and Derivatives),
- € 3,800 million for the bond section (€ 4,600 million in the previous year, -17%),
- € 11 million for the energy derivatives section (€ 10.4 million in the previous year, +6%)
- € 0.10 million for the agricultural commodities derivatives segment (€ 0.11 million in the previous year, -9%).

Said amounts have been adjusted several times in the course of the financial year on the basis of the stress test results.
The amount of the default fund for the MIC at 31 December 2017 amounts to € 122 million (€ 190 million at the closing of the preceding financial year, -36%).

New services and functionalities introduced in the financial year

X-Com section

With regard to the X-COM Collateral Management section, in order to make the service more competitive, changes were made to the related guarantee scheme in August 2017. CC&G integrated risk management methodologies by modifying the way in which 'haircuts' are applied to the securities underlying repo transactions managed by the X-COM platform managed by Monte Titoli. The new methodology is based on duration instead of the residual life of each security, this risk measure is more representative of the specific characteristics of each security that can be used as collateral and allows for a more accurate and efficient definition of haircuts and initial margins.

Bond section

With regard to the bond section, in May the Basket GC Extra MTS Repo on government bonds from Spain, Ireland and Portugal was launched, with the same compensation mechanisms already applied for repo contracts on Italian government bonds.

In order to align the Italian market with the European markets, in July repo trading on Italian securities on the MTS, Repo eMID and BrokerTec platforms migrated from Buy-Sell-Back to Classic Repo. CC&G has therefore agreed with the stock exchange companies mentioned above that guaranteed trading on these platforms is only accepted on Classic Repo contracts, replacing the current Buy-Sell-Back method.

Derivatives sections

The clearing system was modified by introducing a new calculation method for the daily settlement price of futures and mini futures contracts on the FTSE MIB index in order to extend the trading hours. In July, the hours of negotiation of these contracts were extended to 8:30 p.m.

The system has also been brought into line with European MiFID2/MiFIR regulations to allow for indirect customers to segregate their accounts. In November, CC&G made two new accounts available to members for the registration of positions and indirect customers guarantees. It also extended the principle of portability after the member declared default to positions and guarantees recorded in third-party omnibus accounts.

Buy-in

With regard to the procedure for implementing buy-in and managing contractual positions in fail, in line with the provisions of the CSDR - Central Securities Depositories Regulation, an amendment was made in order to proceed with buy-in in cases where it is concretely necessary to extend the period for the delivery of non-derivative financial instruments by the clearing member *in malis* until the fifth day of opening of CC&G following the date of expiry of validity.

BCS /ICWS service

In addition to the existing functions in the Bit Clearing Station (BCS), functional improvements have been introduced such as mass loading of members' requests for devices using GUIs (Graphical User Interfaces) and the reverse splitting of contracts to complete the existing contract split function and the removal of the mandatory fields in queries.

In July, the Stop Button function of the derivatives sections was extended until the close of trading at 8:30 pm. In December, the deadline for the submission of clearing requests for futures contracts via the BCS was postponed to 21:00.

Collateral

In November, the functionality of intraday additional margins calls coverage on securities was launched. From that date onwards, CC&G clearing members have the option of covering intraday additional margins calls that occur during the afternoon phase in government bonds. The function aims to meet the needs of banks for more efficient treasury management in covering intraday requests received after a given time.

2.2. Economic results and assets and liabilities situation

Below is a synthesis of economic data compared to that of the previous financial year:

(Amounts in thousands of Euro)

	31/12/2017	31/12/2016
Net interest income	**40,115**	**48,466**
Net commission income	43,404	50,011
Dividends and similar income	5	0
Net income from financial assets/liabilities	186	102
Intermediation margin	**83,710**	**98,579**
Administrative expenses	(22,904)	(19,901)
Other operating income	1,534	1,463
Gross operating margin (EBITDA)	**62,339**	**80,141**
Adjustments/recoveries of value due to impairment	(52)	0
Amortizations and depreciations	(1,975)	(2,112)
Operating income	**60,313**	**78,030**
Net financial income	7,387	3,818
Net operating margin (EBIT)	**67,700**	**81,848**
Income taxes	(22,414)	(26,595)
Profit (Loss) for the year	**45,286**	**55,253**

Cassa di Compensazione e Garanzia S.p.A. closed the financial year as at 31 December 2017 with a net result of € 45.3 million (€ 55.2 million at 31 December 2016). The intermediation margin was equal to € 83.7 million, divided between interest income for € 40.1 million, net commission income for € 43.4 million, and a net result of financial liabilities for € 0.2 million. As of 31 December 2016 the intermediation margin was equal to € 98.6 million. The decrease in interest income is due to the particular conditions of the European financial markets, which influenced the investment strategies of the cash deposited as collateral by members in a context largely marked by negative interest rates.

Administrative expenses amount in whole to € 22.9 million. Amortizations and depreciations amount to € 2.0 million whilst the other sundry operating revenues amount to approximately € 1.5 million. As a consequence of that pointed out in the preceding paragraph, the net operating margin (Ebit) was equal to € 67.7 million. Taxes for the financial year, inclusive of the provision for prepaid taxes, amounted to € 22.4 million.

The Balance Sheet shows a total amount of assets that decreased from € 206.4 billion as of 31 December 2016 to € 134.1 billion as of 31 December 2017. In particular, the following items from the assets side are noted, which are matched in the liabilities side: financial assets/liabilities held for trading for CCP activities for the amount of € 6.5 billion (€ 6.9 billion as of 31 December 2016) and receivables/payables for the amount of € 122.0/€ 127.5 billion (€ 191.2/€ 199.3 billion in the preceding financial year).

Item 40 of the Balance Sheet shows the classified financial instruments available for sale measured at fair value, and relates to investments in secured assets of margins and default funds and residually, the Company's own funds for € 5.7 billion.

In the receivables, € 6.6 billion is recorded for investments in repos, deposits with the central bank and bank deposits, € 110.3 billion for clearing activities on secured repo transactions on the bond market and € 5.1 billion for margins, premiums and receivables guaranteed by securities. In the payables, € 16.9 billion is recorded for margins, deposits on account of advance payments, default funds in relation to clearing members, debts in relation to members in the MIC and debts in relation to members in the T2S and ICSD securities settlement systems and € 110.3 billion for clearing activity on secured repo transactions on the bond market.

The Company's assets, amounting to € 167.9 million, includes € 33.0 million in share capital, € 6.6 million in the legal reserve, € 83.0 million in other reserves (including, inter alia, the "skin-in-the-game" provided by EMIR, the extraordinary reserve, reserves from the evaluation of financial assets available for sale, the FTA and the other distributable reserves) and € 45.3 million from the operating profit.

The cash flow records a net generated liquidity equal to € 42.4 million (at 31 December 2016 the absorbed liquidity was equal to € 9.5 million).

2.3. Information relating to personnel and environment

As of 31 December 2017 the organisational structure is made up of a total of 60 (56 as of 31 December 2016) employees, 6 of whom are Directors, 18 middle managers and 36 employees, as well as 12 seconded resources and 1 seconded to another company of the Group. The average age is 41.6 years and 40% of the work force is represented by women. The average length of service is 10.45 years.

In relation to activities carried out by CC&G, which do not entail any particular levels of risk for employees, no accidents on the job have been reported, nor the appearance of any pathology linked to professional illnesses. Moreover, no mobbing actions have been reported in the Company.

2.4. Research and development

During the current year, the IT department has involved IBM in jointly evaluating a possible POC (Proof of Concept) to adopt the most advanced technologies (Cognitive/Artificial Intelligence) on the Power AI (Artificial Intelligence) platform: specifically, the introduction of AI technologies that could be applied to the treasury sphere was initially evaluated and at first glance, this area seems to be particularly suitable for an initial introduction of the technology.

CC&G has also collaborated with the Post Trading Italia group in the creation of a POC (Proof of Concept) based on Distributed Ledger Technology (Blockchain). CC&G is carrying out research activities, in collaboration with the academic world, with the aim of developing technological solutions for the security and confidentiality of financial data in the Distributed Ledger area.

2.5. Evaluation of risks

The guidelines for the management of risks adopted by CC&G are dictated by the Board of Directors and monitored by the Chief Risk Officer.

The framework outlining the objectives of the Group in terms of risk management enables the management to have an acceptable risk level in pursuing its strategy and to identify the relevant responsibilities.

For the purpose of validating the adequacy of the parameters and the robustness of the models for margin calculation, the Risk Management Office is conducting back tests on a daily basis and, on a monthly basis, sensitivity tests.

Stress tests are also carried out on a daily basis in order to verify the adequacy of the default funds amounts.

The stress test framework is revised both by the External Risk Committee and by the Board of Directors on a yearly basis at least.

The adequacy of stress scenarios used for the determination of defaults funds for each section was evaluated, inter alia, by carrying out reverse stress tests with the aim of identifying, through an interactive approach, hypothetical stress scenarios, which would render the available financial resources insufficient to cover a possible default.

In the course of 2017, the Risk Policy Office extended the functionality of the modular software (MoVE), inserting modules in the web-based user interface, which allow for the automatic implementation of internal validation of all risk models used and any hypothetical scenarios required by regulators.

Internal control system

The segregation of control duties from the operational functions is guaranteed; lines of responsibility for the Risk, Compliance and Internal Audit functions are clear and distinct from those for other CC&G's activities.

Internal controls are arranged on the following levels:

Level 1:
First level controls are carried out by dedicated corporate departments, which ensure they are correctly implemented. The front, middle and back office departments ensure correct structure segregation and a correct performance of first level controls. The functional separation and independence between the operational structure and the structure controlling it is also ensured.

Level 2:
In compliance with EMIR rules, CC&G has established internally permanent second level control functions, which operate independently from the operating structures.

In particular the second level functions provided in the framework of CC&G internal control systems are entrusted to the Chief Risk Officer and the Chief Compliance Officer.

Level 3:
Third level controls are performed by the Italy Internal Audit Department. This structure conducts periodical independent audits on the Company's operating and administrative processes, according to the provisions of the annual audit plan. Considering the importance of proper risk management and the relevance it has from a regulatory and governance standpoint, the Audit Department performs periodical controls on the Risk Management Department with the purpose of ensuring a perfect application of the guidelines prepared.

External Risk Committee

In compliance with EMIR provisions, the external Risk Committee, made up from representatives of clearing members, independent members of the Board of Directors and customer negotiators, meets periodically. The members of the Committee have been appointed

by CC&G's Board of Directors on the basis of objective non discriminatory criteria and are subject to periodical rotation.
The External Risk Committee is a consultative body of the Board. This Committee expresses non binding opinions on all measures that may affect the Company's risk management in its capacity as central counterparty and prepares a report on activities carried out on a yearly basis (see paragraph 2.6).

Competition

CC&G constantly faces competition from major European companies from an organisational standpoint as well as for services offered. With a view to a possible consolidation of post-trading in Europe, CC&G is well positioned for coping with competition, with extensive experience in the sector and a solid risk management model.

Technology

In order to guarantee a rapid and effective response to market demands and those of its members, the Company has constantly kept a close eye on internally maintaining technological skills. The use of secure, stable, and high-performance technology, enabling high levels of accessibility and processing capacity of information, is the determining element to make it possible to meet the increasing operational demand from the market; this is aimed at avoiding interruptions or delays when introducing new services or products. The combination of the two above-mentioned key factors enables CC&G to effectively compete in a scenario characterised by rapid technological changes, improvements in standards and the introduction and evolution of new products and services.
During the year CC&G chose to face these challenges with authoritatively defined and universally valid values in order to optimize all core processes and allow for the elimination of redundant processes and duplications: with this approach we have obtained a physiological increase in efficiency, which together with a monitoring and control system based on a management system compliant with standards, has also helped in anticipating unexpected events, accidents and critical issues and improved our ability to respond promptly.

The need for comparison and therefore the consequent pursuit of continuous improvement is the reason for CC&G's desire to approach the area of standards, and to design and implement a business strategy, based on compliance with internationally shared guidelines.

Over the last year CC&G has increased the level of quality and enriched the scope of its services by developing a potentially valid and competitive range beyond national borders, based on the implementation of a management system in accordance with ISO standards that not only has allowed activities to be systematised according to best practices but has also provided an additional tool for cooperation with international players.

Given the nature of CC&G's activities, the first step has been taken towards the ISO 22301 standard, which sets out the requirements for a business continuity management system. This decision illustrates the awareness by senior management of the strategic role that the maintenance of business continuity assumes in a 360 degree model, in order to: safeguard, cooperate, and adopt a systematic and non-improvised approach in the face of ongoing threats.

The implementation of the ISO 22301 management system involved all company functions in order to protect the core business.
Certification from a formal point of view came later, born from the dual-requirement of wanting to demonstrate, through an independent third party body, proper compliance with requirements and obtaining an objective benchmark.

CC&G chose the path of transparency and comparison, exposing itself, not being obliged, to an assessment on the proper application of standards, hoping to comply with universal reference parameters and thus exceeding those imposed by the specific national regulation.

After the implementation and certification of ISO 22301, CC&G turned its attention to information security, obtaining ISO 27001 certification - Information Security, and the adoption of the ISO 31000 international guidelines for risk analysis, further encouraging internal collaboration, dissemination and consolidation of a mentality leading to planning in accordance with reference standards. Both certifications received double accreditation by the ANAB (ANSI-ASQ National Accreditation Board) and the UKAS (United Kingdom Accreditation Service) and are therefore valid worldwide.

As required by EMIR rules, the Chief Technology Officer (hereinafter CTO) is the figure in charge of the technology activities required for meeting standard business requirements and market stimuli.

In the security area, Clearing and Technology Services and CTO appointed, through the Board of Directors, the CISO (Chief Information Security Officer) in order to manage issues concerning Cyber Security, with due responsibility and care, and in particular:

- control of accesses to the system;
- adequate protection against intrusions and wrongful use of data;
- adoptions of suitable solutions to preserve the authenticity and integrity of data;
- the use of highly reliable connection networks and procedures ensuring punctual and precise data management, recording and tracking of each transaction performed, according to a “standard by design” business approach.

Employees

In a rapidly changing environment that requires a continuous ability to react to change and to count on excellent performance, our ability to attract the best talent and retain key people also depends on our remuneration policy, which is defined according to professional profile, the level of individual contribution and comparison with the reference labour market. Failure to attract and retain key personnel can significantly affect business management, as the company may not be able to implement strategies effectively and on time. Therefore, in order to ensure the competitiveness of its remuneration policies, on an annual basis, the Group and Borsa Italiana revise, also in comparison with the reference labour market, the remuneration policy based on fixed remuneration, the variable component, benefits and corporate welfare plans. On the other hand, a performance management system ensures monitoring and the annual assessment of the degree of individual contribution to achieving the company's objectives.

2.6. Governance and legal information

(a) General information

Name and registered office
Cassa di Compensazione e Garanzia S.p.A. has its registered office in Rome, Via Tomacelli, 146 and a branch in Milan, Piazza degli Affari 6.

Date of incorporation and date of termination of the company
The Company was incorporated on 31 March 1992 and will end on 31 December 2100.

Companies' Register
The company is entered in the Companies' Register of the Chamber of Commerce of Rome under No 04289511000.

Legal form
The company is a joint stock company duly incorporated and existing under the laws of Italy, endowed with a management and control system based on the presence of a Board of Directors and a Board of Statutory Auditors.
The Company is subject to the management and coordination activities of London Stock Exchange Group Holdings Italia S.p.A.

The following information is not exhaustive and is based on By-laws. The full text of the By-laws is available at the company's registered office.

(a) Corporate bodies

Board of Directors
The Board of Directors was appointed by the ordinary Shareholders' Meeting of 28 April 2017 and will remain in office for the financial years ending at 31 December 2017 to 31 December 2019. The Board is made up of the following directors:

Renato Tarantola	Chairman
Raffaele Jerusalmi	Vice Chairman
Paolo Cittadini	Managing Director/General Manager
Mauro Lorenzo Dognini	Director
Andrea Maldi	Executive Director with delegated powers for Finance
Claudio Grego	Independent Director
Alfredo Maria Magri	Independent Director
Vincenzo Pontolillo	Independent Director
Valentina Sidoti[1]	Director

General management

Paolo Cittadini	General Manager

Board of Statutory Auditors
The Board of Statutory Auditors was appointed by the ordinary shareholders' meeting of 15 April 2015 for three (consecutive) financial years, which will expire with the Shareholders' Meeting convened for the approval of the financial statements as of 31 December 2017 and is made up as follows:

Roberto Ruozi	Chairman
Fabio Artoni	Statutory Auditor

[1] Director co-opted by the Board of Directors on 28 November 2017 to replace Fabrizio Plateroti, who resigned.

Mauro Coazzoli	Statutory Auditor
Nicola Frangi	Acting Auditor
Lorenzo Pozza	Acting Auditor

Risk Committee

The Risk Committee, established in compliance with EU Regulation No 648/2012 (EMIR Rules) is made up of 8 members, of which there are:
(a) two independent Directors of CC&G
(b) three representatives of the clearing members
(c) three representatives of the clients.
Composition of the Risk Committee:

Vincenzo Pontolillo	Chairman (Independent Director)
Alfredo Maria Magri	Vice Chairmen (Independent Director)
Marco Cicogna	Representative of the clearing member Unicredit
Mauro Maccarinelli	Representative of the clearing member Banca Intesa
Fabrizio Iannarelli	Representative of the clearing member Iccrea
Petrovich Nikkita Gnimadi	Representative of the customer Société Générale
Loubna Serrar	Representative of the customer BNP Arbitrage
Sarah Shore	Representative of the customer Goldman Sachs

Remuneration Committee

The Remunerations Committee, established in compliance with Article 7 of EU Delegated Regulation No 153/2013 and Article 20 of the company's By-laws, is made up of 3 members, of which:
(a) the Vice Chairman of the Board of Directors
(b) two non-executive independent directors.

Composition of the Remunerations Committee:

Raffaele Jerusalmi
Claudio Grego
Vincenzo Pontolillo

Disciplinary Board

The Disciplinary Board, established in compliance with Article 26 of the Code of Conduct, consists of:

Mario Notari Chairman
Marco Lamandini
Giuseppe Lusignani

Board of Arbitrators

The Board of Arbitrators[1], established in accordance with the provisions of the General conditions Part I is made up of:
Alberto Mazzoni Chairman
Emanuele Rimini
Carlo A. Favero

(b) Corporate Governance

[1] The Board of Arbitrators was appointed by the Board of Directors on the 24th March 2017 for the three-year period 2017-2020.

The corporate governance structure of Cassa di Compensazione e Garanzia S.p.A. is based on the "traditional" system of management and control, characterised by the presence of the Board of Directors (management and strategic supervision body) and of the Board of Statutory Auditors (control body), both appointed by the Shareholders' Meeting.
External auditing from an auditing firm (EY S.p.A.) is demanded pursuant to the law.

The **Board of Directors** is responsible for the strategic lead and supervision of the company's overall activity, as well as for the risk management process, in order for these to be consistent with strategic policies.

The Board is vested with all the powers for the ordinary and extraordinary management of the Company in the framework of the provisions of law, regulation and By-laws, and has the power and authority to perform all those acts that it deems necessary and appropriate for pursuing the corporate purpose.

In particular, the Board of Directors, upon proposal of the Managing Director:

- defines the strategic guidelines and objectives to be pursued, reviews and approves the strategic, industrial and financial plans and the budget of the Company, as well as agreements and alliances of a strategic nature, monitoring periodically their implementation;
- defines, determines and documents the Company's system of risk targets (so called Risk Appetite Framework);
- it defines the Company's risk management policy, providing a periodical review of these;
- defines the principal guidelines of the Company's internal controls system; evaluates on an annual basis, the adequacy, effectiveness and actual functioning of the internal controls system;
- reviews and approves the Company's transactions with a significant strategic, economic, equity and financial relevance for the Company;
- grants and revokes powers to and from its members, defining the limits and procedures for exercising such powers;
- it also establishes the frequency, in any event never exceeding a financial quarter, according to which the delegated bodies must report to the Board about the activities carried out while exercising the delegated powers;
- establishes one or more internal Committees, with proposing and consultative functions, including the Remuneration Committee, appointing the members and establishing duties and remuneration;
- establishes a Risk Committee and determines its operating rules;
- evaluates the general performance of the Company's management, on the basis of the information received from the directors with delegations, paying particular attention to the situations of conflict of interest and comparing the results obtained with those planned;
- formulates the proposals to be submitted to the Shareholders' Meeting;
- approves the regulations;
- exercises other powers and carries out the duties required from it by the law and By-laws.

Without prejudice to its exclusive competence, the Board of Directors attributed powers of ordinary management and representation to some of its members, in line with the provisions of the By-laws. Directors vested with particular duties by the Board of Directors include the Chairman, the Vice Chairman, the Managing Director, and the Director with delegated powers for finance. The Board also appointed a General Manager.

The Chairman has the legal representation of the Company in relation to third parties and before the Court, jointly with the Vice Chairman.

The Vice Chairman has the duty to implement the strategic address resolved upon by the Board, oversee international relations and make decisions regarding negotiating, perfecting or making amendments concerning national and international alliances and agreements.

The Managing Director is granted all the management powers to centrally manage counterparty guarantee systems operated by the Company and guarantee systems other than those operated by a central counterparty managed by the Company, as well as financial management powers instrumental to the performance of central counterparty activities provided by the Company's By-laws.

The General Manager oversees the operations of the Company, has the Company's signature for acts of ordinary management, sees to the implementation of the resolutions of the Shareholders' Meeting and the Board of Directors and oversees the performance of the office.

The Director with delegated powers for finance is granted all powers concerning administration and finance, with the exception of the powers to manage the financial resources deriving from the performance of central counterparty activities provided for by the By-laws and granted to the Managing Director.

Persons in possession of the integrity and professionalism requirements established by the Italian Ministry of Economy and Finance for representatives of the management companies of regulated markets and centralised management of financial instruments, or in possession of the specific requirements provided by law for central counterparties may be vested with the office of director.

At least one third of the directors in office, but no less than two of them, are independent according to that defined by EU Regulation No 648/2012. The Board of Directors resolves upon the existence of the above-mentioned requirements in the next appropriate meeting subsequent to the appointment or the learning that the requirements no longer exist. Independent Directors play a central role in the governance of the Company; they are directly engaged in the matters in which potential conflicts of interest may arise such as risk management and the remuneration of directors as well as the key personnel of control functions, through participation in the Remuneration Committee and Risk Committee.

The **Remuneration Committee** has proposing and consultative functions in the matter of remunerations of personnel, with particular interest in the more significant company representatives and personnel responsible for risk management, compliance control and internal audit functions; it creates and develops the remuneration policy, monitors its implementation through senior management and periodically reviews its proper functioning.

The **Risk Committee** is a consultative committee of the Board. The Committee expresses its mandatory non binding opinion to the Board of Directors, on the measures that can affect the management of risks deriving from the Company's central counterparty activities.

In particular, the Committee expresses its opinion on:

a) characteristics of the risk models adopted, including models relating to interoperability agreements with other central counterparties, as well as any substantial amendments to the above-mentioned models, the relevant methods and the framework for liquidity risk management;
b) the internal reference framework for defining the types of extreme but plausible market conditions and the revisions, implemented for the purpose of determining the minimum amount of the default funds, proceeding with the evaluations provided by Articles 29, paragraph 3, and 31 of the EU Delegated Regulation No 153/2013;
c) the policy for the management of default procedures;
d) the liquidity plan adopted by the Company, in compliance with the provision of Article 32 of EU Delegated Regulation No 153/2013;
e) the admission criteria of members;
f) the criteria adopted for admitting new classes of secured instruments;
g) the outsourcing of functions;
h) the policy concerning the use of derivative contracts, for the purpose of Article 47 of EU Regulation No 648 of 2012.

The Committee may also submit proposals to the Board of Directors on matters relating to the management of CC&G risk.
The committee's advisory and proposal-making activities do not extend to decisions relating to the current operations of the Company.
The Committee prepares an annual report, containing information on activities carried out and their assessments of the Company's risk management. This report is attached to the annual report on the organisational structure and the management of risk addressed to the supervisory Authorities.

The **Board of Statutory Auditors** is the body responsible for oversight of compliance with the provisions of the law and By-laws, compliance with the principles of correct management and, in particular the adequacy of the internal control system and the organisational, administrative and accounting structures and their proper functioning. The Board of Statutory Auditors is also required to make a reasoned proposal to the Shareholders' Meeting when it appoints the independent auditors.
The Board of Statutory Auditors also carries out the functions of Internal Control and Legal Audit Committee, as provided for by Article 7 of EU Delegated Regulation No 153 of 2013.
The members of the Board of Statutory Auditors are appointed for a term of three financial years and may be re-elected.
Each of the members of the Board of Statutory Auditors must possess the requirements of integrity, professionalism and independence, provided for by the law and By-Laws.

The **Shareholders' Meeting** is the body that represents all shareholders and is responsible for making ordinary resolutions regarding the approval of the annual financial statements, the appointment and removal of the members of the Board of Directors, the appointment of members of the Board of Statutory Auditors and the Chairmen, the determination of the remunerations of directors and auditors, the conferral of the accounting audit appointment and the responsibilities of directors and auditors; on an extraordinary basis, it is responsible for amendments to By-laws and extraordinary transactions such as capital increases, mergers and de-mergers, without prejudice to the powers attributed to the Board by Article 19 of the By-laws, as already mentioned.

The **legal audit of the accounts** is carried out pursuant to the law by a company listed in the Special Register kept by Consob. The Shareholders' Meeting of 15 April 2015 conferred the relevant appointment, for the term of nine financial years on the basis of the applicable provisions of law, on EY S.p.A. for the financial years closing on 31 December 2015 to 31 December 2023.

(c) The Company's purpose

The Company is authorised to carry out clearing services in the capacity of central counterparty pursuant to (EU) Regulation No 648/2012.
In compliance with Article 4 of the By-laws, the Company has the following corporate purpose:

a) the management and provision of clearing services in its capacity as central counterparty, as defined by European and domestic legislation (in particular by the provisions of EU Regulation No 648/2012 and by Legislative Decree No 58 of 24 February 1998);
b) the implementation of activities conducive to and related to clearing;
c) the management of any other guarantee systems not included in the preceding paragraph;
d) the management and monitoring, also on behalf of third parties, of guarantees of any kind, including bank guarantees, security interests, monetary and security guarantees, including through adjustment techniques of the same guarantees to secured obligations, as well as the implementation, also on behalf of third parties, of cashing and payment instructions.

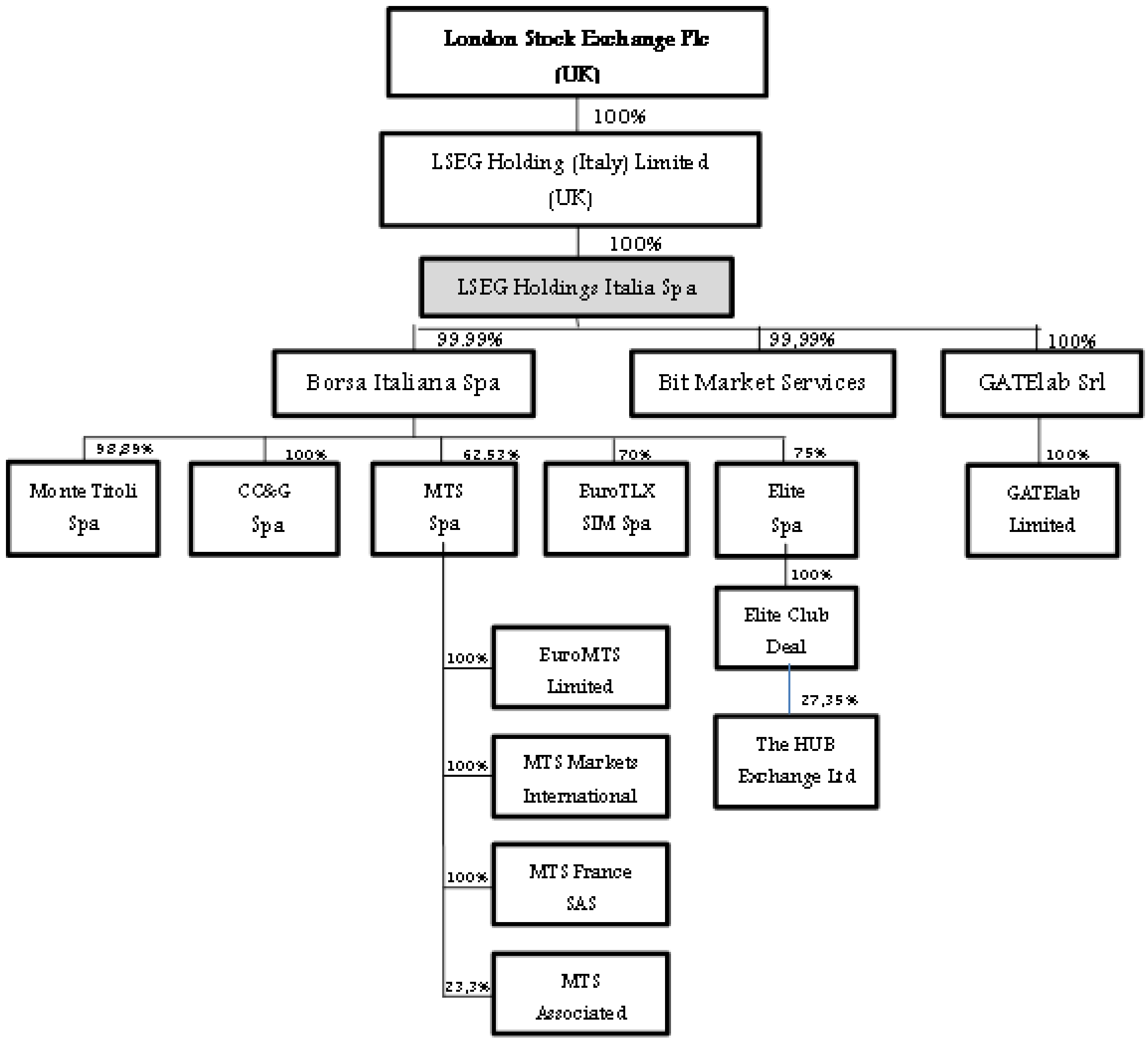
The Company may also carry out any promotional and marketing activities for its services and products, as well as any activities related or conducive to that provided for in the preceding paragraphs.
In particular, the Company may provide, manage and market, technological services and advisory support mainly relating to clearing and guarantee and risk management activities.

(d) Share capital

The share capital amounts to € 33,000,000 fully paid up. It is divided into 5,500 ordinary shares with a nominal value of € 6,000 each.

(e) Structure of the Group

Pursuant to Article 2497 et seq. of the Italian Civil Code, at 31 December 2017, Cassa di Compensazione e Garanzia S.p.A. is 100% controlled by Borsa Italiana S.p.A. and is subject to the management and coordination activities of the London Stock Exchange Group Holdings Italia S.p.A., in turn controlled by the London Stock Exchange Group Plc.
Cassa di Compensazione e Garanzia S.p.A. holds no equity interests.



2.7 Relationships with related parties

For a review of relationships with related parties, reference is made to the appropriate paragraph in the Explanatory Notes.

2.8 Significant events after the close of the financial year

No significant events have been noted that occurred after the close of the financial year, such as:

- announcement or initiation of reorganisation plans
- capital increases
- undertaking of relevant contractual obligations
- significant litigations arising after the close of the financial year.

2.9 Approval of the draft financial statements, proposed allocation of profit, and change of the restricted reserve from "skin-in-the-game"

Dear Shareholders,

We invite you to approve the proposed financial statements for the year ending 31 December 2017 (Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in the Shareholders' Equity, Financial Statement and Explanatory Notes), in their entirety and their individual entries and propose to allocate the net operating profit equal to € 45,285,964.90 as follows:

- to Shareholders, as a dividend equal to € 7,820 for 5,500 ordinary shares with a nominal value of € 6,000 each representing the share capital, for an overall amount of € 43,010,000;

- to Reserves, the residual profit of € 2,275,964.90, as a stable allocation over time of the portion of the profit to be allocated to the reserve.

Furthermore, we invite you to propose the following resolutions to the Shareholders' Meeting:
- to amend, based on the calculation of the regulatory capital requirements - provided by (EU) Regulation 648/2012 (EMIR) - shown in Section D - Other Information, the restricted reserve pursuant to Article 45, paragraph 4 of EU Regulation 648/2012 ("skin-in-the-game") - which, following the approval of the Shareholders' Meeting of 28 April 2017 amounted to € 19,322,727 - increasing it to the new calculated value (as per EU Regulation 648/2012) of € 19,404,893;

The dividend will be payable from 20 April 2018.

Rome, 20 March 2018

for the Board of Directors
the Chairman
Renato Tarantola

3. Financial statements for the year ending 31 December 2017

Balance Sheet

(Amounts in Euro)

ASSETS

	Assets	31/12/2017	31/12/2016
10.	Cash and cash equivalents	283	198
20.	Financial assets held for trading (for CCP activities)	6,500,198,659	6,904,192,697
30.	Financial assets measured at fair value (for CCP activities)	14,472,247	3,226,118
40.	Financial assets available for sale	5,660,549,370	8,298,106,498
60.	Receivables	121,964,833,186	191,173,046,970
100.	Tangible assets	486,458	374,949
110.	Intangible assets	2,291,155	3,318,637
120.	Tax assets	835,474	-
	a) current	*835,474*	-
	b) prepaid	-	-
140.	Other assets	4,346,721	1,431,833
	TOTAL ASSETS	**134,148,013,553**	**206,383,697,900**

LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS

	Liabilities and shareholders' equity items	31/12/2017	31/12/2016
10.	Payables	127,457,357,998	199,285,968,123
30.	Financial liabilities held for trading (for CCP activities)	6,500,198,659	6,904,192,697
40.	Financial liabilities measured at fair value (for CCP activities)	13,993,369	2,512,249
70.	Tax liabilities	345,582	2,339,503
	a) current	-	*557,876*
	b) deferred	*345,582*	*1,781,627*
90.	Other liabilities	7,061,068	9,614,981
100.	Employee severance indemnity provision	1,162,870	964,551
120.	Share capital	33,000,000	33,000,000
160.	Reserves	88,029,283	85,247,180
170.	Valuation reserves	1,578,758	4,606,512
180.	Profit (Loss) for the year	45,285,966	55,252,103
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**134,148,013,553**	**206,383,697,900**

Income Statement

(Amounts in Euro)

	Items	31/12/2017	31/12/2016
10.	Interest receivable and similar revenues	985,291,833	627,486,612
20.	Interest expenses and similar charges	(945,177,013)	(579,020,852)
	NET INTEREST INCOME	**40,114,820**	**48,465,760**
30.	Commissions receivable	44,749,532	51,349,535
40.	Commissions payable	(1,345,742)	(1,338,491)
	NET COMMISSION INCOME	**43,403,790**	**50,011,044**
50.	Dividends and similar income	5,332	494
60.	Net income from trading activities	-	-
80.	Net income from financial assets and liabilities measured at fair value	185,659	102,097
90.	Profit (Loss) from sale or repurchase of:	7,387,341	3,818,071
	a) financial assets	*7,387,341*	*3,818,071*
	INTERMEDIATION MARGIN	**91,096,942**	**102,397,466**
100.	Net adjustments/write-backs due to impairment of:	(51,900)	-
	a) financial assets	*(51,900)*	-
110.	Administrative expenses:	(22,904,337)	(19,900,743)
	a) personnel expenses	*(8,748,700)*	*(7,854,284)*
	b) other administrative expenses	*(14,155,637)*	*(12,046,459)*
120.	Net adjustments/write-backs on tangible assets	(244,051)	(293,229)
130.	Net adjustments/write-backs on intangible assets	(1,730,471)	(1,818,708)
160.	Other operating expenses and income	1,533,811	1,462,801
	NET OPERATING INCOME	**67,699,994**	**81,847,587**
	PROFIT (LOSS) OF CURRENT OPERATIONS BEFORE TAX	**67,699,994**	**81,847,587**
190.	Income taxes for the financial year on current operations	(22,414,028)	(26,595,484)
	PROFIT (LOSS) OF CURRENT OPERATIONS NET OF TAXES	**45,285,966**	**55,252,103**
	PROFIT (LOSS) FOR THE YEAR	**45,285,966**	**55,252,103**

Statement of comprehensive income

(Amounts in Euro)

	Items	31/12/2017	31/12/2016
10.	**Profit (Loss) for the year**	**45,285,966**	**55,252,103**
	Other income components, net of taxes without reversal to income statement	**33,458**	**114,112**
40.	Defined benefit plans	33,458	114,112
	Other income components, net of taxes with reversal to income statement	**(3,061,212)**	**277,079**
100.	Financial assets available for sale	(3,061,212)	277,079
130.	**Total other income components net of taxes**	**(3,027,754)**	**668,270**
140.	**Comprehensive income (Item 10+130)**	**42,258,212**	**55,920,373**

Statement of changes in the shareholders' equity

STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY AT 31 DECEMBER 2017

(Amounts in Euro)

	Balances at 31/12/2016	Change to the opening balances	Balances at 01/01/2017	Allocation of the result of the previous financial year		Changes occurred in the financial year							Comprehensive income for the year 2017	Shareholders' Equity at 31/12/2017
							Transactions on Shareholders' Equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in capital instruments	Other changes			
Share capital	33,000,000		33,000,000											33,000,000
Share premium	-		-											-
Reserves:	-		-											-
- legal	6,600,000		6,600,000											6,600,000
- other reserves	76,494,072		76,494,072	2,782,103										79,276,175
- profits/losses brought forward	-		-											-
- fund for the purchase of shares of parent company	2,082,568		2,082,568											2,082,568
- FTA reserve	70,540		70,540											70,540
Valuation reserves	4,606,512		4,606,512										(3,027,754)	1,578,758
Capital instruments	-		-											-
Own shares	-		-											-
Profit (Loss) for the year	55,252,103		55,252,103	(2,782,103)	(52,470,000)								45,285,966	45,285,966
Shareholders' Equity	178,105,795	-	178,105,795	-	(52,470,000)	-	-	-	-	-	-		42,258,212	167,894,007

STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY AT 31 DECEMBER 2016

(Amounts in Euro)

	Balances at 31/12/2015	Change to the opening balances	Balances at 01/01/2015	Allocation of the result of the previous financial year		Changes occurred in the financial year						Comprehensive income for the year 2016	Shareholders' Equity at 31/12/2016
							Transactions on Shareholders' Equity						
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in capital instruments	Other changes		
Share capital	33,000,000		33,000,000										33,000,000
Share premium	-		-										-
Reserves:	-		-										-
- legal	6,600,000		6,600,000										6,600,000
- other reserves	74,052,479		74,052,479	2,441,593									76,494,072
- profits/losses brought forward	-		-										-
- fund for the purchase of shares of parent company	2,039,581		2,039,581			42,987							2,082,568
- FTA reserve	70,540		70,540										70,540
Valuation reserves	4,215,321		4,215,321									391,191	4,606,512
Capital instruments	-		-										-
Own shares	-		-										-
Profit (Loss) for the year	48,795,592		48,795,592	(2,441,593)	(46,353,999)							55,252,103	55,252,103
Shareholders' Equity	168,773,513	-	168,773,513	-	(46,353,999)	42,987	-	-	-	-	-	55,643,294	178,105,795

Cash Flow Statement

DIRECT METHOD

(Amounts in Euro)

A. OPERATING ACTIVITIES	***Amount***	
	31/12/17	**31/12/16**
1. Management	**(26,948,519)**	**105,345,813**
- interest income received (+)	(121,678,635)	(9,336,584)
- interest expenses paid (-)	96,289,734	101,300,026
- dividends and similar income (+)	5,332	(1,494)
- net commission income (+/-)	43,535,990	50,710,475
- personnel expenses (-)	(8,546,292)	(7,788,054)
- other expenses (-)	(7,916,122)	(7,750,202)
- other revenues (+)	1,533,811	1,453,441
- taxes (-)	(30,172,337)	(23,241,795)
2. Liquidity generated / absorbed by financial assets	**6,582,263,403**	**(3,693,140,655)**
- financial assets held for trading for CCP activities	0	0
- fFinancial assets measured at fair value for CCP activities	234,991	(152,379)
- financial assets available for sale	2,704,614,256	730,854,981
- due from banks	980,616,195	(3,672,042,360)
- due from costumers	2,892,790,014	(751,846,159)
- other assets	4,007,947	45,262
3. Liquidity generated / absorbed by financial liabilities	**(6,451,786,731)**	**3,618,492,658**
- due to banks	(1,619,194,222)	843,801,774
- due to customers	(4,829,270,271)	2,783,751,033
- financial liabilities held for trading for CCP activities	0	0
- financial liabilities measured at fair value for CCP activities	0	0
- other liabilities	(3,322,238)	(9,060,149)
Net liquidity generated/absorbed by operating activity	**103,528,153**	**30,697,816**
B. INVESTMENT ACTIVITY		
1. Cash generated from	**-**	**11,800.00**
- sales of tangible assets	0	11,800
- sales of intangible assets	0	0
2. Liquidity absorbed by	**(1,058,550)**	**(1,081,402)**
- purchases of tangible assets	(355,561)	(168,434)
- purchases of intangible assets	(702,989)	(912,968)
Net liquidity generated/absorbed by investment activity	**(1,058,550)**	**(1,069,602)**
C FUNDING ACTIVITY		
- distribution of dividends and other	(60,071,506)	(39,151,667)
Net liquidity generated/absorbed by the funding activity	**(60,071,506)**	**(39,151,667)**
CASH FLOW GENERATED/ABSORBED DURING THE YEAR	**42,398,097**	**(9,523,453)**

RECONCILIATION

	Amount	
	31/12/17	**31/12/16**
Cash and cash equivalents at beginning of the year	69,441,552	78,965,006
Total net liquidity generated/absorbed during the year	42,398,098	(9,523,454)
Cash and cash equivalents at closing of the year	111,839,650	69,441,552

Explanatory Notes

Part A - Accounting policies

A.1 - General part

Cassa di Compensazione e Garanzia S.p.A. manages clearing and settlement systems for transactions on derivative and other financial instruments pursuant to EU Regulation 648/2012 (European Market Infrastructure Regulation), which dictates, at European level, common rules to all central counterparties defining new levels of transparency and security for the markets.

Section 1 - Statement of compliance with international accounting standards

On 1 January 2005, Cassa di Compensazione e Garanzia S.p.A. adopted international accounting standards.

These Company financial statements are therefore prepared according to the accounting standards issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC and SIC) and validated by the European Commission, as provided for by EC Regulation No 1606 of 19 July 2002 as implemented in Italy by Legislative Decree No 38 of 28 February 2005, up to the date of these financial statements. In preparing these financial statements the same accounting standards have been used, where applicable, as those adopted for preparing the financial statements of the financial year ended at 31 December 2016. The financial statements have been prepared in accordance with the going concern assumption.

Section 2 - General principles

The financial statements for the year ending 31 December 2017, prepared in Euro, consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in the Shareholders' Equity, the Cash Flow Statement[1], Explanatory Notes and the relevant comparative information; they are also accompanied by the Report on Operations prepared by the Directors.

The financial statements were derived from the tables proposed by the instructions contained in "The financial statements of IFRS intermediaries other than bank intermediaries” document issued by the Bank of Italy on 9 December 2016, suitably adjusted to take account of specific activities carried out by the Company. To ensure greater compliance with the Bank of Italy's instructions, some tables in the Explanatory Notes were modified according to these tables, and some values were reclassified to take into account the different exposure[2]. The comparison with the previous year was maintained, as per the regulations.
The financial statements were prepared clearly and are a true and accurate representation of the equity situation, the financial situation and the economic result. The Explanatory Notes to the financial statements provide an exhaustive explanation aiming to outline a clear, truthful and accurate presentation of the tables for the financial statements.

The application of IAS/IFRS was also carried out with reference to the "conceptual framework for financial reporting" (so-called framework), with particular regard to the fundamental principle that concerns the prevalence of substance over form, as well as the concept of relevance and significance of information.

---

1 The cash flow statement for the financial year and the previous year was prepared using the direct method, which indicates the main categories of gross cash receipts and payments. The direct method provides useful information in the estimate of future cash flows.
2 In the Balance Sheet, the Income Statement, the Statement of Overall Profitability and the Explanatory Notes no items were provided that do not present amounts for the financial year to which they relate nor for the preceding financial year.

Financial statement items were assessed based on continuity of the company's activities and taking into account the economic function of the assets and liabilities considered.

In compliance with the provisions of IAS 1, the following general principles were observed in preparing the interim financial statements:

- Corporate continuity: the financial statements were prepared based on a going-concern assumption; therefore, assets, liabilities and off-balance-sheet transactions were valued according to operating criteria;
- Economic pertinence: costs and revenues were taken based on economic accrual and according to the criterion of correlation;
- Relevance and aggregation of items: each relevant class of items has been presented separately in the financial statements. Items of dissimilar nature or allocation have been aggregated only if irrelevant;
- Clearing: assets and liabilities, income and expenses do not need to be cleared unless expressly required or permitted by a standard or interpretation;
- Comparative information: comparative information is provided for a previous period for all data presented in the balance sheet unless otherwise called for by a standard or an interpretation;
- Uniformity of presentation: presentation and classification of items have been kept constant over time in order to ensure that the information is comparable, unless otherwise specified by new accounting standards or by their interpretation.

The assessment criteria adopted are therefore consistent and comply with the principles of relevance, significance and meaningfulness of accounting information as well as prevalence of economic substance over legal form. These criteria have not been changed with respect to the previous year.

Main risks and uncertainties

In document No 2 of 6 February 2009 and again in document No 4 of 3 March 2010, Bank of Italy, Consob and Isvap requested that financial reports provide information that is indispensable for a better understanding of the Company's performance and prospects.

Having regard to those recommendations and with reference to the precondition of business continuity, it is pointed out that the financial statements as at 31 December 2017 were prepared based on the perspective of business continuity, there being no reasons to consider that the Company will not continue operating in the foreseeable future. In fact, no symptoms were identified in the equity and financial structures and in the operational performance that may lead to uncertainties on this issue. Information on risks and uncertainties to which the Company is exposed are described in the context of this report.

The information on financial risks and operational risks, the methods for managing the same, are described in the dedicated section of the Report on the Operations and in the Explanatory Notes to the financial statements.

New accounting standards

In preparing these financial statements the same accounting standards have been used, where applicable, as those adopted for preparing the financial statements of the financial year ended at 31 December 2016.

New standards applicable from the financial year ended 31 December 2017

It is pointed out that the following accounting principles, amendments and interpretations, with effect from 1 January 2017, are not relevant and have generated no relevant effects for the company:

Document title	Date of issue	Effective date	Validation date	EU Regulation and date of publication
Information initiative (amendments to IAS 7)	January 2016	1 January 2017	6 November 2017	(EU) 2017/1990 9 November 2017
Recognition of deferred tax assets for unrealised losses - Amendments to IAS 12	January 2016	1 January 2017	6 November 2017	(EU) 2017/1989 9 November 2017

New accounting principles and interpretations already issued but not yet in force
Below are listed, and briefly discussed, the new standards and interpretations already approved by the European Union and not applicable to the preparation of financial statements that close at 31 December 2017.

IFRS 9

The new IFRS 9 accounting standard - Financial Instruments, will replace, as of 1 January 2018, IAS 39 - Financial Instruments: recognition and measurement, with the aim of simplifying the classification and measurement of financial assets, defining a new impairment method and new hedge accounting policies.
The areas potentially impacted by IFRS 9 are financial assets, in as far as their classification and measurement. These latter, together with the "Receivables" item, will also be subject to new impairment methods from a prospective point of view (for example, provision for bad debts).
The Parent Company LSE initiated a centralised analysis and development project, involving the Company, for the purpose of defining qualitative and quantitative impacts and any interventions that may become necessary for the adoption of the new standard. Even if the adoption of IFRS 9 does not have a significant impact on the financial statements the Company, in collaboration with the Parent Company, will complete the assessment process during the course of 2018.

IFRS 15

The new IFRS 15 accounting standard - Revenue from Contracts with Customers will replace, effective 1 January 2018, accounting standards IAS 11, Accounting for construction contracts and IAS 18, Revenue recognition and relevant interpretations. The objective of the new standard is to create a complete homogeneous reference framework for the recognition of revenues, providing a precise five-step model, applicable to all commercial contracts, with the exception of leasing contracts, insurance contracts and financial instruments.

The Parent Company LSE initiated a centralised analysis and development project, involving the Company, for the purpose of defining qualitative and quantitative impacts and any interventions that may become necessary for the adoption of the new standard. Even if the adoption of IFRS 15 does not have a significant impact on the financial statements the Company, in collaboration with the Parent Company, will complete the assessment process during 2018.

IAS/IFRS endorsed by the EU as of 9 November 2017 and applicable to financial statements for financial years starting after 1 January 2018

Document title	Date of issue	Effective date	Validation date	EU Regulation and date of publication
IFRS 15 - Revenues from contracts with customers	May 2014 *(Note 1)*	1 January 2018	22 September 2016	(EU) 2016/1905 29 October 2016

IFRS 9 - Financial instruments	July 2014	1 January 2018	22 November 2016	(EU) 2016/2067 29 November 2016
Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts - (Amendments to IFRS 4)	September 2016	1 January 2018	3 November 2017	(EU) 2017/1988 9 November 2017
Clarifications to IFRS 15 - Revenues from contracts with customers	April 2016	1 January 2018	31 October 2017	(EU) 2017/1987 9 November 2017
IFRS 16 - Leasing	January 2016	1 January 2019	31 October 2017	(EU) 2017/1986 9 November 2017

(Note 1) The amendment that modified the effective date of IFRS 15 was published in September 2015.

IFRS not yet endorsed with effective date after 1 January 2017

Document title	Date of issue by the IASB	Date of entry into force of IASB document	Planned validation date by the EU
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	(Note 1)	(Note 1)
IFRS 17 Insurance Contracts	May 2017	1 January 2021	TBD
Interpretations			
IFRIC 22 Foreign Currency Transactions and Advance Consideration	December 2016	1 January 2018	2018
IFRIC 23 Uncertainty over Income Tax Treatments	June 2017	1 January 2019	2018
Amendments			
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 2014	Deferred until the date of completion of IASB project on the equity method	Deferred while waiting for the conclusion of IASB project on the equity method
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	June 2016	1 January 2018	2018
Annual Improvements to IFRS Standards 2014-2016 Cycle	December 2016	1 January 2017/ 1 January 2018	2018
Amendments to IAS 40: Transfers of Investment Property	December 2016	1 January 2018	2018
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	October 2017	1 January 2019	2018
Amendments to IFRS 9: Prepayment Features with Negative Compensation	October 2017	1 January 2019	2018

(Note 1) IFRS 14 came into force on 1 January 2016, but the European Commission decided to suspend the relevant validation process while awaiting the new accounting standard on "rate-regulated activities".

For the time being no significant impacts are expected from the adoption of such standards.

Section 3 - Events subsequent to the reference date of these financial statements

In the period between the date of the financial statements and their approval by the Board of Directors no events have occurred that require an adjustment of the data approved at that meeting. The proposed financial statements were approved by the Board of Directors on 20 March 2018 and were authorised for publication on that date (IAS 10).

Section 4 - Other aspects

In consideration of the unique nature of the service rendered by the Company and the fact that it is geographically concentrated within the national territory, the segment reporting provided by IFRS 8 is represented by the financial statements themselves.

Cassa di Compensazione e Garanzia S.p.A.'s financial statements for the year ending 31 December 2017 are subject to an accounting audit by EY S.p.A.

A.2 – Section relating to the main items of the financial statements

Evaluation criteria and accounting principles

Cash and cash equivalents

Cash and cash equivalents include items that meet the requirements of on-demand or short-term (3 months) availability, are successful and do not incur collection costs.

Financial trading assets/liabilities for central counterparty activities

These items show measurement at fair value of open transactions not settled at the balance sheet date (so-called "open interest") on the derivatives market (IDEM Equity, IDEX and AGREX) in which Cassa di Compensazione e Garanzia operates as a central counterparty.

In particular, these items include:

- Contracts relating to derivative financial instruments on the FTSE MIB stock market index (index futures, stock mini-futures, index options, etc.);
- contracts relating to derivative financial instruments on single stocks (stock futures, stock options, etc.);
- contracts relating to commodity futures (energy and durum wheat futures).

The fair value measurement of such positions is determined on the market price of each individual financial instrument at the closing of the financial year; since the Company has a perfect balance of assets and liabilities, this amount is equally entered in both assets and liabilities, therefore the fair value of both items does not lead to any net profit or loss in the income statement of the Company ("Net profit/loss from trading activities” item).

Financial assets/liabilities measured at fair value for central counterparty activities

The company, operating as central counterparty in trading on regulated markets of standardised financial instruments, has chosen to adopt the settlement date as reference date for the recognition of financial assets and therefore these items include:

- listed share and bond financial instruments, measured at fair value, which CC&G has in its portfolio, having already collected them in the T2S and ICSD (international CSD) settlement systems, and has not yet delivered to the purchasing intermediaries;
- the fair value measurement of financial assets/liabilities traded and not yet settled on stock and bond markets (both for transactions carried out around the turn of the year and for which the trade date has already passed but not the settlement date and for transactions performed on the settlement date but not yet settled) represented in the 'Guarantees and commitments’ item in the 'Other information’ section.

The "fair value" of the financial instruments in the portfolio has been determined on the basis of the market price of each individual financial instrument at the moment of "withdrawal" in the framework of the T2S and ICSD settlement systems (date of first accounting recording); subsequently the changes in fair value of the securities in the portfolio are recorded in the income statement ("Net income from financial assets and liabilities measured at fair value” item) on the basis of the market price at the date of the financial statements, perfectly balanced by the offsetting of the equivalent differences with respect to commitments for transactions to be settled. Memorandum accounts show the nominal value of open interest positions at the reference date of the financial statements: the difference between the nominal value of the securities to be received and the securities to be delivered is provided by the nominal value of securities in the portfolio in question.

For securities traded as part of central counterparty activities on stock and bond markets and still not concluded at the settlement date, the difference between the settlement price of each individual financial instrument at the trade date and the market price of each individual financial instrument at the end of the financial year, represented by prices recorded on the last day of the year, is recorded. The effects of this measurement are recorded in the income statement ("Net income from financial assets and liabilities measured at fair value" item), to offset the recording of the same amount in respect of the commitment to market counterparties.

Given the company's fully balanced position as markets central counterparty with regard to assets and liabilities, no net income or loss is generated.

Financial assets available for sale

This item includes those assets other than receivables, held to maturity or assets measured at fair value.
The CCP has decided to include in this item all financial assets that do not belong to other categories of financial instruments typical of its business and which are held for an undefined period of time.
Those assets are initially measured at fair value, which corresponds to the purchase or subscription cost of the transaction.
This category includes investment in secured assets of margins and of payments to the default funds deposited by members with the central guarantee system, in compliance with new EMIR regulations.
This concerns the purchase of EU Government Bonds (Belgium, France, Ireland, Italy, Spain), securities issued by the European Union and Supranational securities issued by the European Investment Bank, by the European Stability Mechanism and the European Stability Facility as well as securities issued by French (Caisse d'Amortissement de la Dette Sociale) and German government agencies (Kreditanstalt fur Wiederaufbau) which are recorded at fair value under item 40, "Financial assets available for sale - BS Assets".
After the initial recording, accrued interest is shown in the Income Statement according to the actual interest rate of the transaction. Assets that are available for sale are measured at fair value on the basis of the closing prices published on the active market. Capital gains and losses resulting from changes in the fair value are shown directly in the shareholders' equity, in an appropriate evaluation reserve fund, except for losses deriving from a reduction in value.
In case of sale before maturity, the profits and losses from a valuation pending in the shareholders' equity reserve fund are shown in the income statement in item 90, "Profit/loss deriving from disposal or repurchase of financial assets".

Receivables/Payables

This item includes overnight deposits held in current accounts with credit institutions, originated from own funds, cash payments made by members of the CCP service to cover initial margins and cash payments made by members in default funds.

Payables, whose maturity falls within the normal commercial terms, are not discounted back and are recorded at cost, identified by their nominal value.

Receivables/Payables due to/from clearing members

These are trade receivables/payables whose maturity does not exceed thirty days and, therefore, are not discounted back, and are recorded at their nominal value net of any ancillary collection costs.

Receivables/payables due to/from clearing members for CCP activities

This item includes receivables/payables originated from clearing member's activities in the derivatives, equity and bond sections. These include amounts to be received/delivered for initial margins, variation margins and option premiums. These receivables/payables are settled the day after the determination of the receivable and therefore are not discounted back, and represent the fair value, calculated by Cassa di Compensazione e Garanzia, on the basis of procedures that reflect operational risks.

Operational risks mean risks attributable to the correct functioning of the margining system, also taking into account:

- Equity/technical and organisational risks adopted by CC&G for the selection of members;
- The organisational structure and the internal audit system.

This item also includes the value of repurchase agreements (repo) entered into by members in the bond market that make use of the company's clearing and guarantee system. They represent the value of the transactions already settled in cash and not yet forward settled. This item, evaluated at amortised cost, was already evaluated by allocating the return of such repurchase agreement on a *pro-rata temporis* basis (coupon accrued during the year and spread between the spot price and forward price). Since the company is perfectly balanced as regards asset and liability positions, this evaluation does not impact on the operating result. This item includes receivables for guarantees given in securities.
Other trade receivables/payables

This item includes receivables for services offered to counterparties with maturity exceeding thirty days. In case such receivables are not collected on or before the due date or the delay in their payment exceeds one hundred and eighty days after the invoice has been issued, we proceed with a prudent receivable devaluation. For accounting purposes, the provision for losses on receivables should be recorded in a devaluation fund that is not shown in the financial statements but directly deducted from the value of the receivables. Since all receivables are of the same nature, the determination of the devaluation impairment is made according to a synthetic principle, by adopting a unified percentage reducing the value of the receivable.
Any increases/decreases in the devaluation fund occur depending on the contingent impossibility to collect or possible collection after the closing date of the financial statements.
Any decreases or increases in the provision are shown in the Income Statement as contingent losses or profits under item "100 - Adjustments/recoveries of value due to impairment".

Tangible assets

Tangible assets are entered at purchase cost inclusive of directly attributable ancillary expenses and the amounts are shown net of depreciation and any losses of value[1].

Maintenance costs relating to improvements are attributed to the asset to which they relate and are depreciated over the remaining useful life of the asset.

Intangible assets

Intangible assets are recorded under assets when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be reliably measured. These assets are recorded at purchase cost, net of impairments and amortised on a straight-line basis over the asset's estimated useful life[2].

Impairment of assets

[1] The depreciation periods for each category of tangible fixed assets are as follows:

• Automatic data processing systems	3 years
• Plant and equipment	5 years
• Furniture and fittings	3 years

[2] They refer to:
- Software licenses, amortized over three years;
- Costs for the development of software application, amortized over three years;
- intangible assets in the course of costruction and advances relating to costs incurred for the development of specific software applications and the purchase of software licenses for projects yet to be finished; no amortization is calculated on said item.

The Company reviews the book value of its tangible and intangible assets to determine whether there are signs that these assets have suffered any impairment.
It is not possible to individually estimate the recoverable amount of an asset; the company estimates the recoverable value of the unit generating the financial flow to which the asset belongs[1].
Impairment is recorded if the recoverable amount is below the book value. This impairment is restored in the event that the reasons that led to impairment no longer exist, up to the maximum amount of the original value.

Other assets/liabilities

These are valued at cost, representative of the recoverable value of assets; since they are short-term items, they are not discounted. The item includes receivables relating to bankruptcy proceedings following market insolvencies that have a matching item in the liabilities in the form of amounts owed to members in guarantee funds. The latter refer to long-term receivables and payables that cannot be offset and which should be valued following impairment tests and therefore discounted back. Considering the importance that these items have for members in guarantee funds and considering also that the company will not incur any losses from such insolvency proceedings, it has been deemed appropriate not to proceed with devaluation. Moreover it also includes the receivables/payables to the Parent Company (consolidating entity for the time being) as a result of the application of the national tax consolidation system.

Employee severance indemnity

The employee severance indemnity pursuant to article 2120 of the Italian Civil Code is subject to an actuarial valuation, based on assumptions regarding the employees' length of service and the remuneration received during a certain period of service. The entry in the financial statements of defined benefit plans requires an estimate - by means of actuarial techniques - of the amount of benefits accrued by employees for the work carried out during the current and previous years and the discounted value of such contributions, in order to determine the present value of the company's commitments. The calculation of the current value of the company's commitments is performed by an external expert according to the Projected Unit Credit Method considering only accrued length of service at valuation date, the years of service at the valuation reference date and the total average length of service at the time the benefit liquidation is expected. Moreover, the above mentioned method entails the consideration of future salary increases, regardless of the reason (inflation, career progress, contracts renewals, etc.) until the termination of the employment.

Regulation No 475/2012 validated the amendments to IAS 19, as approved by the IASB on 16 June 2011, with the objective of promoting the understandability and comparability of financial statements, above all with regard to plans with defined benefits. The most important amendment concerns the elimination of different admissible accounting treatments for recording plans with defined benefits and the consequent introduction of a single method that provides for the immediate recognition in the statement of comprehensive income of the discounted profits/losses deriving from the evaluation of the obligation. In relation to the previous accounting layout adopted, the principal effects consist of the elimination of the recording in the income statement, with immediate recognition in the statement of comprehensive income and, therefore, in the shareholders' equity, of the changes in value of the obligations and of the assets servicing the plan.

Payments based on shares

[1] The recoverable value of an asset is the higher of its current value less selling costs and its value in use. Where the current value is the consideration obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties and the value in use of an asset is calculated by discounting estimated future cash flows, gross of taxes, at a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Payments to employees based on shares of the Parent Company London Stock Exchange Group plc are recognised by reporting at cost in the Income Statement the portion of the share allocation plan, determined at fair value on the date of granting of the plan and taking into account the terms and conditions on which such instruments are granted.
For the purpose of being in line with Group policies, starting from 1 January 2016 the relevant debt is reported among current liabilities - short-term intercompany debts (until 31 December 2015 the debt was reported in the shareholders' equity in an appropriate reserve fund).
If the SBPs are identified as equity settled, an increase is recorded in the corresponding reserve for shareholders' equity in accordance with IFRS 2.
In addition to the cost of the share allocation plan, the portion of employee severance indemnity that the company shall settle or pay at the end of the accrual period is shown in the Income Statement by recording an increase of the relevant liabilities.

Revenues

Revenues are calculated on an accrual basis and are recognised if it is possible to reliably determine their fair value and it is likely that the relevant economic benefits will be achieved, pursuant to the provisions of IAS 18.

Costs

Costs are reported on an accrual basis of accounting.

Interest payable/receivable and similar income and expenses

Financial income and expenses are recorded, using the actual interest rate, on an accruals basis of interest accrued on the relevant financial assets and liabilities.

Taxes

Taxes for the period were calculated on the basis of tax regulations currently in force.
Deferred taxes are calculated in accordance with the method of line-by-line allocation of liabilities; they are calculated on all temporary differences that emerge between the taxable base of an asset or liability and the book value in the financial statements.
Deferred tax assets (prepaid taxes) are recognised if it is likely that future taxable income will be earned against which deferred tax assets can be recovered.
Current and deferred tax assets and liabilities are offset when income taxes are applied by the same tax authorities and when there is a legal right for offsetting.
Deferred and prepaid tax assets are reported as a contra entry in the shareholders' equity in relation to capital gains and losses arising from changes in fair value of securities in the portfolio classified as available for sale.

Financial assets and liabilities subject to offsetting in the financial statements

Following a comparison with the Group in these financial statements, it was decided to provide more information on the presentation of financial assets and liabilities, net or gross (so-called offsetting), in accordance with IAS 32, paragraph 42.
In particular, IAS 32 requires the exposure of financial assets and financial liabilities on a net basis if this representation reflects the future cash flows that the entity expects to obtain from the settlement of two or more separate financial instruments.
There are essentially two criteria for such compensation:

1. A policy whereby an entity has the legal right to offset amounts recognised in the accounts;
2. The criterion by which an entity intends to settle the net residual amount, or to realise the asset and simultaneously settle the liability.

The net amounts represent financial assets and liabilities offset by a contractual position in accordance with the provisions of Cassa Compensazione e Garanzia regulations.

Operationally, the concept of a contractual position corresponds to an ISIN data item, a member data item and an account item.

Guarantees and commitments

Regarding items recorded as guarantees and commitments referred to in the "Other information" section, it is noted that:

- third party securities deposited as collateral and securities to be received/delivered for transactions to be settled are recorded at their nominal value;
- sureties deposited as guarantee are recorded at their nominal value;
- securities to be received/delivered for transactions to be settled are recorded at the nominal value of open interest positions at the balance sheet reference date.

No guarantees were issued by the company in favour of third parties.

Use of estimates

The preparation of the financial statements and of the relevant notes pursuant to International Accounting Standards requires the use of estimates and assumptions which impact the value of assets and liabilities in the financial statements and in the information related to potential assets and liabilities at the financial statements date. Final results could differ from the estimates made.

Estimates and assumptions are periodically reviewed and the effects of the changes are recorded in the income statement.

In particular, see the "risk management" section, part D "Other information" of the Explanatory Notes, for an illustration of the methods adopted for the calculation of margins and default funds, as elements of the risk management system of CC&G as central counterparty.

A.3 Information on transfers between portfolios of financial assets.

It should be noted that during the year there were no reclassifications of financial assets.

A.4 – Fair value disclosure

Information of a qualitative nature

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

There are no assets and/or liabilities measured at fair value related to level 2 and level 3, on a recurring basis[1].

Fair value measurements are classified according to hierarchy of levels that reflects the significance of the inputs used in the measurements. Because CC&G operates exclusively on regulated markets, assets and financial liabilities at fair value are only "Level 1" and that - as defined by IAS 39 - refers to quoted prices (unadjusted) in an active market for the assets or liabilities to be measured.

A.4.2 Processes and sensitivity of evaluations

[1] With reference to receivables and payables, evaluated in the financial statements at amortized cost according to IAS 39, it is considered that said evaluation reasonably approximates the fair value of such items, therefore, a hierarchy of third category fair values is shown in the tables of the explanatory notes.

Cassa di Compensazione e Garanzia uses no fair value levels other than level 1 in the hierarchies provided by IFRS 13. However, conventionally, as provided for in the banks' circular No 262 of 22 December 2005, to which the central counterparty, as financial intermediary in the absence of other regulations, refers, for assets guaranteed by repurchase agreements, as well as balance sheet credits/debts or available liquidity, CC&G uses level 3 of fair value to indicate the amortised cost or the real value of what has been deposited.

A.4.3 The fair value hierarchy

Financial instruments are measured at fair value in accordance with the classes required by IFRS 13, as follows:

Level 1 Quoted prices (without adjustments) on the active market as defined by IAS 39 for assets or liabilities to be measured.

Level 2 Inputs other than quoted prices included in the preceding paragraph, that are observable either directly (as prices) or indirectly (derived from prices) on the market.

Level 3 Inputs that are not based on observable market data.

A.4.4 Other information

Reference is made to paragraphs A.4.1 and A.4.2 above

Disclosure of quantitative information

A.4.5 The fair value hierarchy

The following table shows the breakdown of financial portfolios based on the above-mentioned levels of fair value. There are no assets/liabilities classified as level 2 and level 3.

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: division by fair value levels

Financial assets/liabilities valued at fair value	Level 1	Level 2	Level 3	Total
1. Financial assets held for trading for CCP activities	6,500,198,659	-	-	6,500,198,659
2. Financial assets measured at fair value for CCP activities	14,472,247	-	-	14,472,247
3. Financial assets available for sale	5,660,549,370	-	-	5,660,549,370
4. Hedging derivatives	-	-	-	-
5. Tangible assets	-	-	-	-
6. Intangible assets	-	-	-	-
Total	**12,175,220,276**	**-**	**-**	**12,175,220,276**
1. Financial liabilities held for trading CCP activities	6,500,198,659	-	-	6,500,198,659
2. Financial liabilities measured at fair value (for CCP activities)	13,993,368	-	-	13,993,368
3. Hedging derivatives	-	-	-	-
Total	**6,514,192,027**	**-**	**-**	**6,514,192,027**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non recurring basis: division by fair value levels

Assets and liabilities not measured at fair value or measured at fair value on a non recurring basis	31/12/2017				31/12/2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held until maturity	-	-	-	-	-	-	-	-
2. Receivables	121,964,833,183	-	-	121,964,833,183	191,173,046,970	-	-	191,173,046,970
3. Tangible assets held for investment purpose	-	-	-	-	-	-	-	-
4. Non current assets and groups of assets held for sale	-	-	-	-	-	-	-	-
Total	**121,964,833,183**	**-**	**-**	**121,964,833,183**	**191,173,046,970**	**-**	**-**	**191,173,046,970**
1. Payables	127,457,357,998	-	-	127,457,357,998	199,285,968,123	-	-	199,285,968,123
2. Securities issued	-	-	-	-	-	-	-	-
3. Liabilities associated to assets held for sale	-	-	-	-	-	-	-	-
Total	**127,457,357,998**	**-**	**-**	**127,457,357,998**	**199,285,968,123**	**-**	**-**	**199,285,968,123**

Key:
BV = Book Value
L1= Level 1
L2= Level 2
L3= Level 3

A.5 Disclosure of so-called "day one profit/loss"

This section has not been completed, since at the date of the financial statements in question, there were no balances attributable to the items in question.

ANALYSIS OF THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Part B - Analysis of items - Balance sheet

BALANCE SHEET - ASSETS

Section 1 - Cash and cash equivalents - Item 10

This item amounts to € 283 (€ 198 at 31 December 2016) and consists of cash in hand.

1.1 Breakdown of item 10 "Cash and cash equivalents"

Items/Values	Total 31/12/2017	Total 31/12/2016
Cash and cash equivalents	283	198
Total	**283**	**198**

Section 2 - Financial assets held for trading for CCP activities - Item 20

This item, relating to derivative instruments activities, amounts to € 6,500,198,659 (€ 6,904,192,697 at 31 December 2016) and relates to the net matching entry of open positions (so-called "open interest") of financial assets held for trading for CCP activities. This item represents the measurement at fair value of open interest positions on the derivatives markets (IDEM Equity, IDEX and Agrex), in which the Company operates as central counterparty.

2.1 Financial assets held for trading: breakdown by product

Items/Values	Total 31/12/2017			Total 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
B. Derivative financial instruments						
1. Financial derivatives	6,500,198,659			6,904,192,697		
FTSE stock market index derivatives:	*4,820,606,547*			*4,993,567,855*		
- Futures	*3,990,589,965*			*3,579,003,300*		
- Mini Futures	*88,121,539*			*66,933,645*		
- Options	*741,895,043*			*1,347,630,910*		
Single stock derivatives:	*1,658,584,298*			*1,816,162,033*		
- Futures	*1,090,027,174*			*919,303,620*		
- Options	*568,557,124*			*896,858,413*		
Commodities derivatives	*21,007,814*			*94,462,809*		
Total	**6,500,198,659**			**6,904,192,697**	**-**	**-**

2.2 Derivative financial instruments

Type/underlying	Equities	Other	Total 31/12/2017	Total 31/12/2016
2. Others				
Financial derivatives				
- Fair value	6,479,190,845	21,007,814	**6,500,198,659**	**6,904,192,697**
Total	**6,479,190,845**	**21,007,814**	**6,500,198,659**	**6,904,192,697**

Section 3 -Financial assets measured at fair value for CCP activities - Item 30

This item, which refers to non derivative financial instruments activities, amounted to € 14,472,247 (€ 3,226,118 in the previous year).

3.1 Breakdown of item 30 "Financial assets measured at fair value"

Items/Values	Total 31/12/2017			Total 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	**6,353,141**			**2,432,312**		
Financial instruments traded but not yet settled (1):	6,147,124			2,119,215		
- *Government bonds*	*6,147,124*			*2,119,215*		
Financial instruments in the portfolio (2):	206,017			313,097		
- *Government bonds*	*206,017*			*313,097*		
2. Equities and UCITS units	**8,119,106**			**793,806**		
Financial instruments traded but not yet settled (1):	7,864,442			390,439		
- *Equity instruments*	*7,864,442*			*390,439*		
Financial instruments in the portfolio (2):	254,664			403,367		
- *Equity instruments*	*254,664*			*403,367*		
Total	**14,472,247**			**3,226,118**		

(1) This item represents the difference between the trading value and the market value, as at the date of the financial statements, for instruments already traded but not yet settled (mainly related to the MTS, MTA and MOT markets).
(2) This item represents the value of the securities withdrawn from the T2S and ICSD settlement systems, which have been delivered to the respective buyers after the close of the financial year; these values incorporate the valuation at market prices at the date of the financial statements.

It should be noted that the valuation of government securities in the bond section as at 31 December 2017 was subject to changes in estimates in order to align with Group policies. In particular, the quantities of bonds were valued using "dirty" prices inclusive of coupon accruals rather than "clean" prices not inclusive of such accruals, an approach that had been followed in previous years. If the new valuation criterion were applied retrospectively, the value of these securities at 31 December 2016 would have been € 8,479,124 instead of € 2,119,215 as shown in the table below.

Section 4 – Financial assets available for sale – Item 40

4.1 Breakdown of item 40 "Financial assets available for sale"

Items/Values	Total 31/12/2017			Total 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	**5,660,549,370**			**8,298,106,498**		
- other debt instruments	5,660,549,370			8,298,106,498		
of which: securities purchased through equity financing	*119,889,460*			*141,446,186*		
of which: securities purchased with contributions of the participants	*5,540,659,910*			*8,156,660,312*		
Total	**5,660,549,370**	**-**	**-**	**8,298,106,498**	**-**	**-**

This item includes all investments in secured assets paid in cash by members of the central counterparty system. Investments linked to the Company's equity were also included to meet the requirements of EMIR regulations pursuant to Article 47, paragraphs 1 and 2 in terms of Regulatory Capital invested in secured assets.

The overall investment amounts to € 5,660,549,370, corresponding to a nominal value of € 5,560,400,000 of securities in portfolio, adjusted for €97,954,968 of interest not yet accrued at the date and € 2,194,402 resulting from the measurement of securities at fair value at 31 December 2017.

The share of securities representing the Company's equity, included in the aforementioned total, amounts to € 119,889,460 corresponding to a nominal value of € 112,900,000 adjusted for € 6,503,269 of interest not yet accrued at the date and € 486,191 as the effect deriving

from the measurement of securities at fair value at 31 December 2017. These funds are invested in securities, in compliance with EMIR rules on regulatory capital requirements of central counterparties.
Currently the investment in secured assets consists of Government Bonds issued by the Governments of Belgium, France, Germany, Ireland, Italy, Spain, the European Union and Supranational Securities issued by the European Investment Bank, the European Stability Mechanism and European Financial Stability Facility, as well as securities issued by French (Caisse d'Amortissement de la Dette Sociale) and German government agencies (Kreditanstalt fur Wiederaufbau). These securities were recorded at their fair value and valued on the basis of the public market prices on the date of these financial statements. The amount of the valuation is recorded under equity in the Balance Sheet, item 170, net of prepaid and deferred taxes that do not have any economic impact, as they reflect only the theoretical taxation of Equity items. These prepaid and deferred taxes can be found in item 120 A of the assets side of the Balance Sheet and in item 70 of the liabilities side of the Balance Sheet.

4.2 Financial assets available for sale: breakdown by debtor/issuers

Items/Values	**Total 31/12/2017**	**Total 31/12/2016**
Financial assets	**5,660,549,370**	**8,298,106,498**
a) Governments and Central Banks	4,485,883,418	7,314,242,768
e) Other issuers	1,174,665,952	983,863,730
Total	**5,660,549,370**	**8,298,106,498**

Section 6 - Receivables - Item 60

This item amounts to € 121,964,833,186 (€ 191,173,046,970 in the preceding financial year). Below is the breakdown for deposits and bank accounts as well as commissions and other receivables:

6.1 "Receivables from banks"

Breakdown	**Total 31/12/2017**				**Total 31/12/2016**			
	Book Value	**Fair Value**			**Book Value**	**Fair Value**		
		L1	**L2**	**L3**		**L1**	**L2**	**L3**
1. Bank deposits and accounts (1)	**5,346,907,363**			**5,346,907,363**	**5,375,101,364**			**5,375,101,364**
Cash in bank accounts originated from own funds	*111,839,366*			*111,839,366*	*69,441,353*			*69,441,353*
Cash in bank accounts originated by payments of the participants (2)	*85,187,537*			*85,187,537*	*132,114,600*			*132,114,600*
Cash in Banca Centrale Nazionale accounts originated by payments of the members (3)	*5,149,880,460*			*5,149,880,460*	*5,173,545,411*			*5,173,545,411*
2. Loans	***1,240,000,000***			**1,240,000,000**	***2,150,000,000***			**2,150,000,000**
2.1 Repurchase agreements (4)	*1,240,000,000*			*1,240,000,000*	*2,150,000,000*			*2,150,000,000*
Total	**6,586,907,363**			**6,586,907,363**	**7,525,101,364**			**7,525,101,364**

L1=level1
L2=level2
L3=level3

(1) This item includes interest income accrued on bank accounts and still not paid, entered in bank accounts availabilities on an accrual basis.

(2) This item also includes € 20,002,864 deposited with the International Central Securities Depository (ICSD) Euroclear for the central counterparty's activities that CC&G carry out on the ICSD Links bond section and 2,093 dollars deposited for its central counterparty activities in the ICSD Links bond section for instruments settled in US Dollars.

(3) The rules provided by Article 47.4 of EU Regulation No 648/2012 govern the investment policy of CCPs, whereby the cash deposits on a CCP must be constituted through highly secure mechanisms with authorized financial entities or, in alternative, through the use of deposits with the National Central Banks/Banche Centrali Nazionali.

(4) The rule provided for by Article 45 of the Delegated Regulation No 153/2013 provides that, if cash is not deposited with the Central Bank, but is kept overnight, no less than 95% of

that cash will be deposited into collateralised deposits, including repurchase agreements. CC&G intended to use tri-party agents (the principal international CSDs) in order to comply with such rules.

6.3 "Receivables from costumers"

Breakdown	Total 31/12/2017				Total 31/12/2016			
	Book Value	Fair Value			Book Value	Fair Value		
		L1	L2	L3		L1	L2	L3
3. Other assets:	115,377,925,823			115,377,925,823	183,647,945,606			183,647,945,606
Clearing commissions on contracts entered into in relevant month (1)	*2,889,240*			*2,889,240*	*4,356,779*			*4,356,779*
Commissions on securities deposited as collateral (1)	*157,837*			*157,837*	*211,263*			*211,263*
Receivables for interest on cash deposited by participants (2)	*21,046,127*			*21,046,127*	*25,974,056*			*25,974,056*
Receivables from participants for margins and premiums	*136,855,372*			*136,855,372*	*222,682,759*			*222,682,759*
Receivables guaranteed by securities (3)	*713,851,804*			*713,851,804*	*1,081,452,519*			*1,081,452,519*
Receivables from MIC members (4)	*1,427,200,000*			*1,427,200,000*	*2,243,000,000*			*2,243,000,000*
Receivables from repo transactions for CCP activities (5)	*110,325,721,940*			*110,325,721,940*	*175,707,799,338*			*175,707,799,338*
Receivables from other clearing and guarantee systems (6)	*2,750,065,603*			*2,750,065,603*	*4,362,268,249*			*4,362,268,249*
Receivables vis-a-vis participants in the settlement system T2S and ICSD	-			-	*68,443*			*68,443*
Other receivables for services (7)	*137,900*			*137,900*	*132,200*			*132,200*
Total	**115,377,925,823**			**115,377,925,823**	**183,647,945,606**			**183,647,945,606**

L1=level1
L2=level2
L3=level3

There are no impaired loans and all values are considered to rank in a hierarchy of Level 3 fair value.

(1) These amounts have been collected on the first day of market trading of the month following the reference month.
(2) These represent interest owed to the members on the cash deposited to cover initial margins and default funds. The rate applied to deposits is equal to the daily Eonia rate minus 30 basis points for margins and the daily Eonia rate minus 25 basis points for default funds.
(3) These represent the amounts of initial margins due to members, for open interest positions at the close of the financial year and not yet paid in cash since guaranteed by the prior deposit of securities.
(4) These are contracts to be traded on Mic as of the closing of the financial year.
(5) This represents, like the corresponding item in the liabilities side, the value of repo transactions carried out by members using the CCP service.
(6) These correspond to the margins paid to LCH Clearnet SA for the interoperability link existing with the French central counterparty on the MTS market; in particular the balance can be broken down into € 2,353,065,603 for initial margins and € 397,000,000 for the additional initial margin.
(7) These trade receivables mainly refer to € 136,700 for invoices pertaining to the year, partly still to be issued, for receivables due from CC&G to LSE Derivatives Market members through the BCS technological infrastructure.

Section 10 - Tangible assets - Item 100

10.1 Tangible assets held for operating purposes: breakdown of assets valued at cost

Assets/values	Total 31/12/2017	Total 31/12/2016
1. Own assets:	486,458	374,949
c) furniture	*14,021*	*14,893*
d) electronic systems	*458,221*	*340,823*
e) other	*14,216*	*19,233*
Total	**486,458**	**374,949**

During this financial year electronic systems were purchased for € 354,000. The decreases are due to depreciations over the year as well as to the sale and/or disposal of obsolete electronic data processing equipment.

10.5 Tangible assets held for operating purposes: annual changes

	Furniture	Electronic systems	Other	**Total**
A. Gross opening balance	**340,265**	**9,270,699**	**30,103**	**9,641,067**
A.1 Total net value reductions	(325,372)	(8,929,876)	(10,870)	(9,266,118)
A.2 Net opening balance	**14,893**	**340,823**	**19,233**	**374,949**
B. Increases	**(7,560)**	**318,143**	-	**310,583**
B.1 Purchases	1,745	353,816	-	355,561
B.7 Other changes	(9,305)	(35,673)	-	(44,978)
C. Decreases	**6,688**	**(200,745)**	**(5,017)**	**(199,074)**
C.1 Sales	-	-	-	-
C.2 Amortizations and depreciations	(2,617)	(236,417)	(5,017)	(244,051)
C.7 Other changes	9,305	35,672	-	44,977
D. Final balance	**14,021**	**458,221**	**14,216**	**486,458**
D.1 Total net value reductions	327,989	9,166,293	15,887	9,510,169
D.2 Gross final balance	**342,010**	**9,624,514**	**30,103**	**9,996,627**

Section 11 - Intangible assets - Item 110

11.1 Composition of item 110 "Intangible Assets"

Items/Valuation	**Total 31/12/2017**		**Total 31/12/2016**	
	Assets measured at cost	Assets measured at fair value	Assets measured at cost	Assets measured at fair value
2. Other intangible assets:	**2,291,155**		**3,318,637**	
2.1 own assets	2,291,155		3,318,637	
- other	*2,291,155*		*3,318,637*	
Total	**2,291,155**		**3,318,637**	

11.2 Intangible assets: annual changes

	Total
A. Opening balance	**3,318,637**
B. Increases	**702,989**
B.1 Purchases	702,989
B.4 Other changes	-
C. Decreases	**(1,730,471)**
C.2 Amortizations and depreciations	(1,730,471)
C.5 Other changes	-
D. Final balance	**2,291,155**

Increases for software purchases are mainly related to new developments of the clearing system, which has been modified to adapt it to the following requirements:

1. Introduction of a new methodology for calculating the daily settlement price of futures and mini futures contracts on the FTSE MIB Index in order to extend trading time;
2. compliance with European MiFID2/MiFIR regulations to allow for the segregation of indirect customer accounts;

3. guaranteed trading carried out on the MTS, Repo eMID and BrokerTec platforms, which from July 2017 only provides for trading on Classic Repo contracts.

The decreases are due to depreciation for the year.

Section 12 – Tax assets and tax liabilities

At 31 December 2017, the balance of current tax assets was € 835,474 relating to an IRAP credit for higher advance payments, while the balance of tax liabilities was € 345,582 relating to deferred tax liabilities.

12.1 Breakdown of item 120 "Tax assets: current and prepaid"

Items/Breakdown	Total 31/12/2017	Total 31/12/2016
Tax assets:		
a) current	835,474	-
b) prepaid	-	-
Total	**835,474**	**-**

12.2 Breakdown of item 70 "Tax liabilities: current and prepaid"

Items/Breakdown	Total 31/12/2017	Total 31/12/2016
Tax liabilities:		
a) current	-	(557,876)
b) deferred	(345,582)	(1,781,627)
Total	**(345,582)**	**(2,339,503)**

Breakdown of item 70 b)

12.3 Change in prepaid tax (balancing entry of income statement)

	Total 31/12/2017	Total 31/12/2016
1. Opening balance	**485,652**	**441,088**
2. Increases	**42,649**	**177,366**
2.1 Prepaid tax recorded during the year	42,649	177,366
d) other	42,649	177,366
3. Decreases	**(96,446)**	**(132,802)**
3.1 Prepaid tax cancelled during the year	(96,446)	(132,802)
a) reversals	(96,446)	(132,802)
d) other	-	-
4. Final amount	**431,855**	**485,652**

Increases for prepaid tax recorded during the year

Items/Technical forms	Amounts	IRES	IRAP	TOTAL
Emoluments due to Directors	13,589	3,737	-	3,737
Fees due to the auditing firm	39,900	10,973	-	10,973
Differences in IAS and tax amortizations	101,596	27,939	-	27,939
Total	**155,085**	**42,649**	**-**	**42,649**

Decreases for prepaid taxes cancelled during the year

Items/Technical forms	Amounts	IRES	IRAP	TOTAL
Write-off share of receivable risk fund	(4,913)	(1,351)	(274)	(1,625)
Emoluments due to Directors	(16,806)	(4,622)	-	(4,622)
Fees due to the auditing firm	(39,900)	(10,973)	-	(10,973)
Differences in IAS and tax amortizations	(175,506)	(79,226)	-	(79,226)
Total	**(237,125)**	**(96,172)**	**(274)**	**(96,446)**

12.6 Changes in deferred tax (balancing item in the shareholders' equity)

Items/Breakdown	Total 31/12/2017	Total 31/12/2016
1. Opening balance	**(2,267,279)**	**(2,087,091)**
2. Increases	-	**(180,188)**
2.1 Deferred tax recorded during the year	-	(180,188)
c) other	-	(180,188)
3. Decreases	**1,489,842**	-
3.1 Deferred tax cancelled during the year	1,489,842	-
c) other	1,489,842	-
4. Final amount	**(777,437)**	**(2,267,279)**

The values shown in table 12.6 above refer to deferred taxes on securities in the portfolio measured at fair value with balancing item in the shareholders' equity.

Section 14 - Other assets - Item 140

14.1 Breakdown of item 140 "Other assets"

Breakdown	Total 31/12/2017	Total 31/12/2016
Receivables relating to bankruptcy proceeding	38,508	951,239
Receivables from Group companies (2)	3,923,101	151,642
Other receivables (3)	384,112	327,952
Guarantee deposits	1,000	1,000
Total	**4,346,721**	**1,431,833**

(1) These amounts refer exclusively to certain "traders/negotiators" participating in guarantee funds, which were declared bankrupt in previous years and in relation to which CC&G, as

fund manager, took actions, pursuant to the applicable provision of law and regulations, in order to recover the disbursement in relation to the insolvent parties in the interest of the members which sustained the disbursement. Any minor collections of these claims will not lead to losses for the Company, because should that be the case, minor debts will arise in relation to members in the funds. The difference with respect to 31 December 2016 refers to the elimination of balance sheet items relating to closed bankruptcies, for which CC&G can no longer recover the amounts reported at the time of admission to the bankruptcy proceedings. The difference between assets and liabilities is shown in item 160, Other operating income and expenses in the Income Statement. The receivable and payable items for bankruptcy proceedings still under way remain outstanding.

(2) "Receivables from Group companies", for a total of € 3,923,101, are recorded towards:

- LSE Group Holdings Italia S.p.A. for € 3,806,753 relating to credits for IRES advance payments made in 2017;
- Borsa Italiana S.p.A. for € 48,028 relating to invoices to be issued;
- LSE plc for € 58,692 relating to receivables for taxes paid as tax agent on the payment of share awards;
- Monte Titoli S.p.A. for € 2,762 relating to invoices issued for the secondment of CC&G personnel and for € 6,866 relating to a receivable relating to the transfer of an employment contract from Monte Titoli to CC&G.

(3) Other receivables of € 384,112 refer mainly to other prepaid expenses for costs incurred but not yet accrued (€ 216,693), withholding tax on bank interest (€ 64,189); € 53,114 in receivables from the fund for banks and insurance for employee training courses co-financed by the fund and € 8,890 in receivables from the Pension Fund Treasury for employee severance indemnities accrued by employees and not intended for complementary pension funds.

BALANCE SHEET - LIABILITIES

Section 1 - Payables - Item 10

This item amounts to € 127,457,357,998 (€ 199,285,968,123 at 31 December 2016).

1.1 Payables

Items	Total 31/12/2017			Total 31/12/2016		
	due to banks	due to financial institutions	due to costumers	due to banks	due to financial institutions	due to costumers
1. Loans	200,000,000					
1.1 Repurchase agreements (1)	200,000,000					
2. Other payables	2,702,352,085		124,555,005,913	4,519,614,541		194,766,353,582
Interest payable (2)	1,449,923			1,749,990		
Due to participants for margins and premiums			7,222,187,887			10,030,748,393
Due to participants for advance account deposits			337,389,180			873,747,355
Due to participants in default funds			5,241,806,000			5,909,459,000
Due to discount scheme participants			223,894			223,894
Due for repo transactions for CCP activities (3)			110,325,721,940			175,707,799,338
Due to other clearing and guarantee systems (4)	2,700,902,162			4,517,864,551		
Due to participants in MIC			1,427,200,000			2,243,000,000
Due to participants in the securities settlement system T2S and ICSD			477,012			1,375,602
Total	**2,902,352,085**		**124,555,005,913**	**4,519,614,541**		**194,766,353,582**
Fair value - level 1						
Fair value - level 2						
Fair value - level 3	**2,902,352,085**		**124,555,005,913**	**4,519,614,541**		**194,766,353,582**
Total Fair value	**2,902,352,085**		**124,555,005,913**	**4,519,614,541**		**194,766,353,582**

(1) This amount refers to two repurchase agreements entered into by Cassa Compensazione e Garanzia on 12 December 2017 with Unicredit S.p.A. for € 100 million and on 14 December 2017 with Credit Agricole Sa for a further € 100 million and still outstanding at the end of the year.

(2) This amount includes € 786,397 of interest payable accrued on repo investments and € 663,526, the amount relating to interest accrued on deposits with the National Central Bank, which will be debited at the end of the maintenance period. Effective 10 June 2014, the ECB adopted a negative monthly interest settlement for deposits with central banks by the IMF. This rate, as of 31 December 2017 was equal to -40 bps.

(3) This amount includes, as for the corresponding item in the assets side, the value of repurchase agreements (repo) entered into by members that use the company's CCP guarantee service.

(4) These correspond to the margins paid by LCH Clearnet SA for the interoperability link existing with the French central counterparty on MTS market. The item includes € 2,146 million for initial margins and € 400 million for the additional initial margin, as well as € 2 million for interest due by CC&G on cash deposited as initial margins and additional initial margin, as well as € 112.3 million for excess margins and € 40.5 million for margins to cover fail positions.

Section 3 - Financial liabilities held for trading for CCP activities - Item 30

This item amounts to € 6,500,198,659 (€ 6,904,192,697 in the previous year) and is broken down as follows:

3.1 Breakdown of item 30 "Financial liabilities held for trading"

Liabilities	Total 31/12/2017					Total 31/12/2016				
	Fair Value			FV*	NV	*Fair Value*			FV*	NV
	L1	L2	L3			L1	L2	L3		
B. Derivative instruments	**6,500,198,659**					**6,904,192,697**				
1. Financial derivatives	6,500,198,659					6,904,192,697				
S&P stock market index derivatives:	*4,820,606,547*					*4,993,567,855*				
- Futures	*3,990,589,965*					*3,579,003,300*				
- Mini Futures	*88,121,539*					*66,933,645*				
- Options	*741,895,043*					*1,347,630,910*				
Single stock derivatives:	*1,658,584,298*					*1,816,162,033*				
- Futures	*1,090,027,174*					*919,303,620*				
- Options	*568,557,124*					*896,858,413*				
Commodities derivatives	*21,007,814*					*94,462,809*				
Total	**6,500,198,659**					**6,904,192,697**	**-**	**-**		

L1= level 1
L2= level 2
L3= level 3
FV= fair value calculated excluding changes in value due to changes in the creditworthiness of the customer from the date of issue*
NV= nominal/notional value

This item includes the fair value of open interest positions on the derivatives market in which the company operates as central counterparty.

3.3 "Financial liabilities held for trading": derivative financial instruments

Type/underlying	Equities	Other	**Total 31/12/2017**	**Total 31/12/2016**
2. Others				
Financial derivatives	6,479,190,845	21,007,814	**6,500,198,659**	**6,904,192,697**
- Fair value	*6,479,190,845*	*21,007,814*	***6,500,198,659***	***6,904,192,697***
Total	6,479,190,845	21,007,814	6,500,198,659	6,904,192,697

Section 4 -Financial liabilities measured at fair value for CCP activities - Item 40

This item amounts to € 13,993,369 (€ 2,512,249 in the preceding financial year) and includes:

4.1 Breakdown of item 40 "Financial liabilities measured at fair value"

Liabilities	Total 31/12/2017					Total 31/12/2016				
	Fair Value			FV*	NV	*Fair Value*			FV*	NV
	L1	L2	L3			L1	L2	L3		
1. Payables										
2. Debt instruments	13,993,369					2,512,249				
Bonds	*6,129,236*					*2,118,452*				
Financial instruments traded but not yet settled - *Government bonds*	*6,147,124*					*2,119,215*				
Financial instruments in the portfolio - *Valuation on Government bonds (1)*	*(17,888)*					*(763)*				
Other securities	*7,864,133*					*393,797*				
Financial instruments traded but not yet settled: - *Equity instruments*	*7,864,442*					*390,439*				
Financial instruments in the portfolio: - *Valuation of equity instruments (2)*	*(309)*					*3,358*				
Total	**13,993,369**	**-**	**-**	**-**	**-**	**2,512,249**	**-**	**-**	**-**	**-**

L1= Level 1
L2= Level 2
L3= Level 3
NV= nominal/notional value
FV= fair value calculated excluding changes in value due to changes in the creditworthiness of the customer from the date of issue*

(1) This value relates to the valuation at market prices on the balance sheet date of bonds withdrawn from the T2S and ICSD Links settlement systems for instruments settling both in Euro and in US Dollars and which have been delivered to the respective purchasers on the closing date of the financial year.
(2) This value relates to the valuation at market prices on the date of the balance sheet of shares withdrawn from the T2S settlement system for instruments settling both in Euro and in US Dollars and which have been delivered to the respective purchasers after the closing date of the financial year

It should be noted that the valuation of government securities in the bond section as at 31 December 2017 was subject to changes in estimates in order to align with Group policies. In particular, the quantities of bonds were valued using "dirty" prices inclusive of coupon accruals rather than "clean" prices not inclusive of such accruals, an approach that had been followed in previous years. If the new valuation criterion were retrospectively applied, the value of these securities at 31 December 2016 would have been € 8,479,124 instead of € 2,119,215 as provided in the table below.

Section 7 - Tax liabilities - Item 70

Reference is made to section 12 under Assets "Tax assets and tax liabilities".

Section 9 - Other liabilities - Item 90

The amount of € 7,061,068 (€ 9,614,981 in the previous financial year), is broken down as follows:

9.1 Breakdown of item 90 "Other liabilities"

Items	Total 31/12/2017	Total 31/12/2016
Intercompany debts for taxes (1)	0	2,649,046
Due to intercompany suppliers	2,549,960	1,082,675
Due for recoveries from bankruptcy proceedings (2)	648,686	1,582,002
Sundry (3)	1,658,570	1,978,109
Due to suppliers (4)	1,324,819	1,562,419
Due to customers	876	0
Due to social securities and insurance institutions	599,302	666,878
Tax liabilities	278,263	93,556
Prepaid expenses	592	296
Total	**7,061,068**	**9,614,981**

(1) At 31 December 2016, there was a payable for IRES with the tax consolidating company LSE Group Holdings Italia S.p.A., which was totally extinguished.

(2) These amounts refer exclusively to receivables claimed for insolvencies of certain "traders/negotiators" participating in guarantee funds, which were declared insolvent in previous years; the corresponding item in the assets side is recorded under "Other assets", amounting to € 39,000. The difference between the amount recorded in liabilities and the amount charged to assets is due to amounts collected but not yet paid to members while awaiting developments in on-going proceedings. The difference with respect to 31 December 2016 refers to the elimination of balance sheet items relating to closed bankruptcies, for which CC&G can no longer recover the amounts reported at the time of admission to the bankruptcy proceedings. The credit and debt positions for insolvency proceedings still under way remain outstanding.

(3) This item consists of amounts due to employees for deferred salaries, debts for bonus payment, debts for withholding taxes levied on employment salaries and debts arising from fees payable to the members of the Board of Directors and the Board of Statutory Auditors.

(4) Such debt is related to generic suppliers of services rendered and goods purchased for the operational management of the Company.

Section 10- Employee severance indemnity provision - Item 100

This item incorporates the liabilities relating to the Staff Severance Indemnity for employees, adequately discounted back, according to the appraisal of the independent actuary, on the basis of the rates shown below.

10.1 "Employee severance indemnity provision": annual changes

	Total 31/12/2017	Total 31/12/2016
A. Opening balance	**964,551**	**1,024,316**
B. Increases	**466,628**	**189,878**
B1. Provision for the year	59,553	64,452
B2. Other increases	103,029	125,426
B3. Other increases (Share awards/Bonuses)	304,046	
C. Decreases	**(268,309)**	**(249,643)**
C1. Settlements made	(104,009)	(47,422)
C2. Other decreases	(46,149)	(157,396)
C3. Other decreases (Share Awards/Bonuses)	(118,151)	(44,825)
D. Final balance	**1,162,870**	**964,551**

This table represents the annual changes in the company's employee severance indemnity. The discounted back value pursuant to IAS 19 is equal to € 935,504 at 31 December 2017, the other increases and decreases are linked to the employee severance indemnity from share awards and bonuses.

10.2 Other information

The table below shows the assumptions of the independent actuary for the purpose of the valuation of staff severance indemnity.

Assumptions for actuarial valuation

	31/12/2017	31/12/2016
Annual technical discount rate	1.29%	1.30%
Annual inflation rate	1.50%	1.50%
Annual rate of salary increase for managers and middle managers	3.50%	3.50%
Annual rate of salary increase for administrative staff	2.50%	2.50%
Annual rate of increase in staff severance indemnity	2.63%	2.63%

With regard to the discount rate, the iBoxx Eurozone Corporates AA 10+ index was taken as reference for the valorisation of said parameter on the date of evaluation.

The sensitivity analysis is reported below, performed on the main variables adopted in the actuarial calculation of the Severance Indemnity Fund.

Annual discount rate		Annual inflation rate		Annual turnover rate	
0.50%	-0.50%	0.25%	-0.25%	2.00%	-2.00%
876,558	1,000,321	947,691	923,553	882,741	1,002,392

Section 12 - Assets - Items 120 - 160 - 170 - 180

The shareholders' equity at the date of the financial statements amounts to € 167,894,007 (€ 178,105,795 in the preceding financial year). For an analytical breakdown of movements in shareholders' equity, reference must be made to the relevant statement.

The share capital of Cassa di Compensazione e Garanzia S.p.A. is composed of 5,500 shares, with nominal value of € 6,000 each, for a total value of € 33,000,000.

12.1 Breakdown of item 120 "Share Capital"

Type	Amount
1. Share capital	**33,000,000**
1.1 Ordinary shares	33,000,000

12.5 Other information - Item 160 "Reserves" and item 170 "Valuation reserves"

	Legal reserve	Extraordinary reserve	Regulatory reserves	Share Awards	Reserve for FTA	Reserve for IAS19	Valuation reserve	Other	Total
A. Opening balance	**6,600,000**	**2,518,414**	**19,763,220**	**2,082,568**	**70,540**	**76,587**	**4,529,925**	**54,212,438**	**89,853,692**
B. Increases	**-**	**-**	**2,059,507**	**-**	**-**	**33,458**	**-**	**2,782,103**	**4,875,068**
B1. Allocation of income	-	-	-	-	-	-	-	2,782,103	2,782,103
B2. Other increases	-	-	2,059,507	-	-	33,458	-	-	2,092,965
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**	**(3,061,212)**	**(2,059,507)**	**(5,120,719)**
C1. Settlements made	-	-	-	-	-	-	-	-	-
C2. Other decreases	-	-	-	-	-	-	(3,061,212)	(2,059,507)	(5,120,719)
D. Final balance	**6,600,000**	**2,518,414**	**21,822,727**	**2,082,568**	**70,540**	**110,045**	**1,468,713**	**54,935,034**	**89,608,041**

These reserves comprise the fully paid up legal reserve pursuant to Article 2430 of the Italian Civil Code, an extraordinary reserve allocated by the company over the years, reserves from First Time Adoption and therefore not distributable, valuation reserves on financial assets available for sale in the portfolio as at 31 December 2017 - shown in item 40, BS Assets - and other reserves.

€ 19,322,727 corresponding to the "skin-in-the-game" (equivalent to 25% of the regulatory capital, which according to European legislation and regulations must be allocated to a restricted reserve) has been allocated to regulatory reserves, following the amendment by the Shareholders' Meeting of 28 April 2017 of the previous reserve amounting to € 17,263,220 (with an increase of € 2,059,507 compared to the previous year),
It is pointed out for the purpose of the reconciliation of the balance of regulatory reserves to the amount of € 21,822,727, that an additional reserve, equal to € 1,000,000, allocated to the coverage of losses (Internal Buffer), was approved by the Shareholders' Meeting of 6 November 2013. On 18 November 2015 the establishment was decided of a reserve, in the amount of € 1,500,000 in compliance with Article B.6.2.3. of CC&G Rules, intended to cover the expenses for the default procedure of a clearing member (second "skin-in-the-game), resolved upon later by the Board of Directors of 2 December 2015 and validated by the Shareholders' Meeting of 13 April 2016.

The reserve pursuant to IAS 19 corresponds to the portion of actuarial gains and losses taken to reserves in this financial year.

Part C - Analysis of items - Income Statement

Section 1 - Interest- Items 10 and 20

Interest receivable and similar revenues - Item 10

This item amounts to € 985,291,833 (€ 627,486,612 in the preceding financial year) and is broken down as follows:

1.1 Breakdown of item 10 "Interest receivable and similar revenues"

Items/Technical forms	Debt instruments	Loans	Other transactions	Total 31/12/2017	Total 31/12/2016
3. Financial assets available for sale (1)	(18,118,256)			**(18,118,256)**	**(10,733,802)**
5. Receivables:				**1,003,410,089**	**638,220,414**
5.1 Receivables from banks		(23,994,027)		**(23,994,027)**	**(17,991,871)**
- on deposits with commercial banks (2)		*246,882*		***246,882***	***358,254***
- on deposits with the National Central Bank (3)		*(16,853,479)*		***(16,853,479)***	***(9,130,351)***
- on Repos assets (4)		*(7,387,430)*		***(7,387,430)***	***(9,219,774)***
5.3 Receivables from costumers			1,027,404,116	**1,027,404,116**	**656,212,285**
- on deposits with other clearing and guarantee systems (5)			*(12,130,865)*	***(12,130,865)***	***(12,227,750)***
- on Repos for CCP activities (6)			*1,039,534,981*	***1,039,534,981***	***668,440,035***
Total	**(18,118,256)**	**(23,994,027)**	**1,027,404,116**	**985,291,833**	**627,486,612**

(1) This item includes negative interest accrued on securities in the portfolio equal to € - 18,118,256 at 31 December 2017 (€ - 10,733,802 at 31 December 2016).
(2) This item includes interest accrued on on-demand bank deposits equal to € 246,882 at 31 December 2017 (€ 358,254 at 31 December 2016).
(3) The item includes negative interest accrued on deposits with the National Central Bank, equal to € -16,853,479 as at 31 December 2017, which was debited at the end of the various maintenance periods (the time schedule for which the Eurosystem is published annually by BCE). Starting from 10 June 2014, the BCE adopted a negative interest rate for deposits with the central banks by the IMF. Such rate, as of 31 December 2017, is equal to -40 basis points. As at 31 December 2016 interest payable accrued amounted to € - 9,130,351 with a negative interest rate equal to -40 basis points.
(4) The item includes interest payable accrued on investments in repos that CC&G carries out in fulfilment of Article 45 of the Delegated Regulation No 153/2013.
(5) The item includes interest payable accrued on amounts deposited with LCH Clearnet SA for initial margins and the Additional Initial Margin.
(6) The item includes the valorisation of repos as at 31 December 2017 for central counterparty activities.

Interest expenses and similar charges- Item 20

This item amounts to € 945,177,013 (€ 579,020,852 in the preceding financial year) and is broken down as follows:

1.3 Breakdown of item 20 "Interest expenses and similar charges"

Items/Technical forms	Loans	Other	Total 31/12/2017	Total 31/12/2016
1. Due to banks	(43,500)		**(43,500)**	**-**
- on Repos assets (1)	*(43,500)*		***(43,500)***	**-**
3. Due to customers:	(94,314,468)	1,039,534,981	**945,220,513**	**579,020,852**
- on deposits by clearing members (2)	*(94,314,468)*		***(94,314,468)***	***(89,419,183)***
- on Repos for CCP activities (3)		*1,039,534,981*	***1,039,534,981***	***668,440,035***
Total	**(94,357,968)**	**1,039,534,981**	**945,177,013**	**579,020,852**

(1) This item includes interest accrued on two repo loan agreements entered into by Cassa Compensazione e Garanzia on 12 December 2017 with Unicredit S.p.A. for € 100 million and on 14 December 2017 with Credit Agricole Sa for a further € 100 million and still outstanding at the end of the year.
(2) This item includes interest owed by members on the cash deposited to cover initial margins and default funds. In fact, the Company has adopted a pricing list whereby the cash deposited by the members entails a negative remuneration at the daily Eonia rate minus 30 basis points for margins and minus 25 basis points for default funds.
(3) The item includes the valorisation of repos as at 31 December 2017 for central counterparty activities.

Section 2 - Commissions - Items 30 and 40

Commission receivable - Item 30

This entry includes commissions received for services performed, amounting to € 44,749,532 (€ 51,349,535 in the preceding financial year), as shown in the following table:

2.1 Breakdown of item 30 "Commissions receivable"

Breakdown	Total 31/12/2017	Total 31/12/2016
6. Services:	33,804,281	39,691,698
- Revenues from clearing activities	*33,804,281*	*39,691,698*
8. Other commissions:	10,945,251	11,657,837
- Other clearing commissions	*5,518,547*	*5,663,621*
- Shareholdings	*3,188,160*	*2,966,617*
- Commissions on guarantees deposited	*2,238,544*	*3,027,599*
Total	**44,749,532**	**51,349,535**

Commissions payable - Item 40

2.2 Breakdown of item 40 "Commissions payable"

Breakdown/Sectors	Total 31/12/2017	Total 31/12/2016
4. Other commissions:	1,345,742	1,338,491
- Bank commissions	*1,345,742*	*1,338,491*
Total	**1,345,742**	**1,338,491**

This item amounts to € 1,345,742 (€ 1,338,491 in the preceding financial year) and includes commissions payable for lines of credit (for € 464,375), and costs incurred for bank services.

Section 3 - Dividends and similar income - Item 50

This item amounts to € 5,332 (€ 494 in the preceding financial year) and represents the amount of dividends collected on withdrawn securities cum-dividend, delivered in subsequent gross settlement cycles, without dividend due to the effect of CC&G's direct intervention in the settlement system. This item must be offset with item 80 from the Income Statement, capital loss from dividends.

3.1 Breakdown of item 50 "Dividends and similar income"

Items/Income	Total 31/12/2017		Total 31/12/2016	
	Dividends and similar income	Income from units in U.C.I.T.S.	Dividends and similar income	Income from units in U.C.I.T.S.
3. Financial assets measured at fair value	5,332	-	494	-
Total	**5,332**	**-**	**494**	**-**

Section 4 – Net income from trading activities – Item 60

4.1 Breakdown of item 60, "Net income from trading activities"

Items/Income components	Capital gains	Profit from trading	Capital losses	Losses from trading	Net result
Variation margins for CCP activities	-	5,394,871,760	-	(5,394,871,760)	-
Option premiums for CCP activities	-	5,177,545,107	-	(5,177,545,107)	-
Total	**-**	**10,572,416,867**	**-**	**(10,572,416,867)**	**-**

This item represents the losses and profits which, as at 31 December 2017, the Company has obtained as results from trading activities. Since Cassa di Compensazione e Garanzia operates as a central counterparty, there is obviously an equal exposure of both gains and losses, with a net result of zero (as shown above in the income statement summary).

Section 6 – Net income from financial assets and liabilities measured at fair value – Item 80

The balance of the item amounts to € 185,659 (€ -102,097 in the preceding financial year).

6.1 Breakdown of item 80 "Net income from financial assets and liabilities measured at fair value"

Items/Income components	Capital gains	Gains on disposals	Capital losses	Losses from disposals	Net result
1. Financial assets	**24,646,006**	**190,989**	**(5,330)**	**-**	**24,831,665**
1.1 Debt instruments	16,781,255	164,074	(4,594)	-	16,940,735
1.2 Equities and UCITS units	7,864,751	26,915	(736)	-	7,890,930
3. Financial liabilities			**(24,646,006)**		**(24,646,006)**
- bonds	-	-	(16,781,255)	-	(16,781,255)
- other securities	-	-	(7,864,751)	-	(7,864,751)
Total	**24,646,006**	**190,989**	**(24,651,336)**	**-**	**185,659**

The capital gains and capital losses items mainly refer to the change deriving from the fair value measurement of securities traded and not yet settled on the equity and bond sections and of financial instruments in the portfolio withdrawn from the T2S and ICSD settlement systems. In consideration of the perfect balancing of the contractual positions undertaken by the Company, the overall economic impact is null.

Section 7 – Profit (Loss) from sale or repurchase – item 90

The balance of the item amounts to € 7,387,341 (€ 3,818,071 in the preceding financial year).

7.1 Breakdown of item 90 "Profit (Loss) from sale or repurchase"

Items/Income components	Total 31/12/2017			Total 31/12/2016		
	Profit	Loss	Net result	Profit	Loss	Net result
1. Financial assets	**7,387,341**	**-**	**7,387,341**	**3,818,071**	**-**	**3,818,071**
1.2 Assets available for sale	*7,387,341*	*-*	*7,387,341*	*3,818,071*	*-*	*3,818,071*
Total	**7,387,341**	**-**	**7,387,341**	**3,818,071**	**-**	**3,818,071**

The item refers to gains and losses from the sale of securities made in the financial year. Securities, included under item 40 of the Assets side of the BS, are normally held by CC&G until maturity in order to invest the members' margins in secured assets. Sales are conducted solely in order to satisfy the cash requirements of the company or to diversify country risk. The investment of securities in the portfolio is currently diversified into 5 Eurozone countries, Belgium, France, Germany, Ireland, Italy and Spain; on securities issued by the European Union and Supranational Securities issued by the European Investment Bank, the European Stability Mechanism and European Financial Stability Facility, as well as securities issued by French (Caisse d'Amortissement de la Dette Sociale) and German government agencies (Kreditanstalt fur Wiederaufbau).

Section 9 - Administrative expenses- Item 110

The balance of the item amounts to € 22,904,337 (€ 19,900,743 in the preceding financial year).

9.1 Breakdown of item 110.a "Personnel expenses

Items/Sectors	Total 31/12/2017	Total 31/12/2016
1. Employees:	**7,675,841**	**7,014,839**
a) Wages and salaries	4,943,435	4,878,371
b) Social security charges	1,107,411	1,193,080
d) Welfare costs	167,017	56,212
e) Provisions for employee severance indemnities	683,867	576,582
h) Other expenses (1)	774,111	310,594
2. Other employees in service (2)	**847,756**	**640,406**
3. Directors and Auditors (3)	**225,103**	**199,039**
Total	**8,748,700**	**7,854,284**

(1) Other main expenses include a leaving incentive, training expenses, meal allowance indemnity and insurance policies.
(2) The "Other employees in service" item includes costs relating to employees seconded at CC&G by Borsa Italiana S.p.A. after deducting the costs for CC&G personnel seconded at the holding company Borsa Italiana S.p.A.
(3) In the Directors and Auditors item, the remunerations of the directors and Board of Statutory Auditors have been included, as per circular No 0101799/10 of 8 February 2010 of the Bank of Italy, entitled "Normativa in materia di bilanci bancari e finanziari / Regulations concerning financial statements for banks and financial institutions".

Changes in personnel during the financial year were as follows:

9.2 Average number of employees by category

Category	31/12/2016	Hires	Resignations	Transfers	31/12/2017	Average
Executives	7	-	(1)	-	6	6.5
Middle managers	17	1	-	-	18	17.5
Administrative staff	32	6	(2)	-	36	34.0
Total employees	**56**	**7**	**(3)**	**-**	**60**	**58.0**
Seconded in	10	2	-	-	12	11.0
Seconded out	(2)	1	-	-	(1)	(1.5)
Tot. employees and seconded employees	**64**	**10**	**(3)**	**-**	**71**	**67.5**

The average number is calculated as weighted average of employees where the weight is given by the number of months worked in a year. In the case of part-time employees 50% is conventionally taken into consideration.

9.3 Breakdown of item 110.b, "Other administrative expenses"

Items/Sectors	Total 31/12/2017	Total 31/12/2016
IT Services (1)	8,700,879	7,495,356
Professional services (2)	1,527,604	1,201,078
Expenses for Company offices (3)	1,486,635	1,291,398
Contributions to Authorities (4)	759,890	549,941
Electronic services	569,491	524,191
EMIR Compliance and Trade Repository	503,224	479,469
Other expenses	457,169	290,713
Data transmission expenses	79,984	78,747
Insurance costs	64,514	123,296
Corporate bodies operating costs	6,247	12,270
Total other administrative expenses	**14,155,637**	**12,046,459**

(1) This item includes assistance fees, rent and maintenance of hardware and software for information systems with relative third party suppliers.
(2) The item includes the costs of legal, tax, notary and auditing consultancy services provided by external professionals and expenses re-charged by Group companies for support services supplied during the year.
(3) Company office expenses refer to the costs of leasing the company headquarters in Rome and Milan and ancillary costs.
(4) The item mainly includes the CONSOB contribution of € 478,230 and the AGCM contribution of € 276,750.
(5) Includes all expenses incurred for the adjustment to EMIR regulations.

Section 10 - Net adjustments/write-backs on tangible assets - Item 120

This item amounts to € 244,051 as of 31 December 2017 (€ 293,229 in the preceding financial year).

10.1 Breakdown of item 120 "Net adjustments/write-backs on tangible assets"

Items/Adjustments and write-backs	Depreciation (a)	Adjustments due to impairment	Write-backs (c)	Net result (a+b-c)
1. Operating assets:	244,051	-	-	244,051
1.1. own assets	244,051	-	-	244,051
c) furniture	*2,617*	-	-	*2,617*
d) instrument assets	*236,417*	-	-	*236,417*
e) other	*5,017*	-	-	*5,017*
Total	**244,051**	**-**	**-**	**244,051**

Section 11 - Net adjustments/write-backs on intangible assets - Item 130

This item amounts to € 1,730,471 (€ 1,818,708 in the preceding financial year).

11.1 Breakdown of item 130 "Net adjustments/write-backs on intangible assets"

Items/Adjustments and write-bac	Amortisation (a)	Adjustments due to impairment	Write-backs ('c)	Net result (a+b-c)
2. Other intangible assets	1,730,471	-	-	1,730,471
2.1 own assets	1,730,471	-	-	1,730,471
Total	**1,730,471**	**-**	**-**	**1,730,471**

Section 14 - Other operating expenses and income - Item 160

This item, which amounts to € 1,533,811 (€ 1,462,801 in the preceding financial year), includes revenues for services rendered to LSE Group companies for € 1,483,991 including invoicing for services rendered to the LSE Derivatives Market for the amount of € 984,125.

14.1 Breakdown of item 160 "Other operating income"

Items/Sectors	Total 31/12/2017	Total 31/12/2016
Other income (A)		
Sundry income (intercompany re-charging)	1,483,991	1,262,706
Exchange gain	37,329	33,264
Other income	29,048	172,356
Total (A)	***1,550,368***	***1,468,326***
Other expenses (B)		
Negative rounding up	398	332
Exchange loss	12,261	-
Other non deductible costs	3,898	5,193
Total (B)	***16,557***	***5,525***
Total other operating expenses and income (A-B)	**1,533,811**	**1,462,801**

Section 17 – Income taxes for the financial year on current operations – Item 190

This item amounts to € 22,414,028 (€ 26,595,484 in the preceding financial year).

17.1 Breakdown of item 190 "Income taxes for the financial year on current operations"

	Total 31/12/2017	**Total 31/12/2016**
1. Current taxes	22,400,865	26,642,111
2. Change in current taxes of previous years	(50,641)	(2,064)
5. Changes in deferred taxes	63,804	(44,563)
Total taxes for the year	**22,414,028**	**26,595,484**

Item 190 reports the total current taxes and the relevant decreases linked to the change in prepaid taxes in the income statement.

Below is the reconciliation between theoretical and actual charges for IRES and IRAP purposes:

17.2 Reconciliation between theoretical tax charges and actual tax charges in the financial statements

	Total 31/12/2017
Profit before taxes	**67,699,994**
Theoretical IRES	18,617,499
Effect of increases	128,539
Effect of decreases	(384,176)
Actual IRES	**18,361,862**
Irap	4,039,003
Adjustments of previous years	(50,641)
Deferred taxes	63,804
Actual IRAP	**4,052,166**
Total tax burden	**22,414,028**

Part D - Other information

<u>Financial assets and liabilities subject to offsetting in the financial statements</u>

As shown in the section on accounting policies, following a comparison with the Group, within these financial statements it was decided to provide more information on the offsetting of financial assets and liabilities pursuant to IAS 32, paragraph 42.
The tables below provide the financial assets and liabilities that were offset in accordance with IAS 32, paragraph 42.
The 'Gross amount of assets' and 'Gross amount of liabilities' columns indicate the amounts of financial assets and financial liabilities, gross of offsets carried out in accordance with IAS 32, paragraph 42.
The "Amount of financial liabilities/assets cleared in the financial statements" column indicates the amounts that were cleared in accordance with IAS 32, paragraph 42
The "Net amount of assets reported in the financial statements" and "Net amount of liabilities reported in the financial statements" columns show the net balances reported in the balance sheet.

Financial assets suject to offsetting

Items/Values	Total 31/12/2017			Total 31/12/2016		
	Gross amount (a)	Offset amount (b)	Net amount (c)=(a)-(b)	Gross amount (a)	Offset amount (b)	Net amount (c)=(a)-(b)
Derivative financial instruments (item 20)	42,746,890,150	36,246,691,492	6,500,198,658	47,425,309,789	40,521,117,092	6,904,192,697
Government bonds (item 30)	7,357,261	1,210,137	6,147,124	10,513,942	2,034,818	8,479,124
Equity instruments (item 30)	26,992,039	19,127,598	7,864,441	466,889	76,450	390,439
Receivables from repo transactions for CCP activities (item 60)	135,242,603,944	24,916,882,004	110,325,721,940	175,707,799,338	18,705,456,148	157,002,343,190
Total	**178,023,843,394**	**61,183,911,231**	**116,839,932,163**	**223,144,089,958**	**59,228,684,508**	**163,915,405,450**

Financial liabilities subject to offsetting

Items/Values	Total 31/12/2017			Total 31/12/2016		
	Gross amount (a)	Offset amount (b)	Net amount (c)=(a)-(b)	Gross amount (a)	Offset amount (b)	Net amount (c)=(a)-(b)
Derivative financial instruments (item 30)	42,746,890,150	36,246,691,492	6,500,198,658	47,425,309,789	40,521,117,092	6,904,192,697
Government bonds (item 40)	7,357,261	1,210,137	6,147,124	10,513,942	2,034,818	8,479,124
Equity instruments (item 40)	26,992,039	19,127,598	7,864,441	466,889	76,450	390,439
Receivables from repo transactions for CCP activities (item 10)	135,242,603,944	24,916,882,004	110,325,721,940	175,707,799,338	18,705,456,148	157,002,343,190
Total	**178,023,843,394**	**61,183,911,231**	**116,839,932,163**	**223,144,089,958**	**59,228,684,508**	**163,915,405,450**

The assets and liabilities subject to offsetting are:

- Financial assets and liabilities held for trading for central counterparty activities: this item includes the fair value measurement of open transactions not settled at the date of the financial statements (IDEM, IDEX and AGREX open interest);
- Financial assets and liabilities measured at fair value for central counterparty activities: in particular, financial assets and liabilities measured at fair value that are traded and not yet settled on the equity (MTA) and bond (MTS, MOT) markets are offset;
- Receivables and payables to clearing members for central counterparty activities: these are offset in particular by repurchase agreements (repo) carried out by bond market members who use the company's clearing and guarantee service. These transactions are valued at amortised cost.

Guarantees and commitments

These are represented by the following items:

"Third parties' securities deposited as collateral" (€ 4,690.9 million) show the nominal value of Government bonds (€ 874.8 million), shares deposited in order to guarantee short call positions in options (€ 3.7 million) and guarantees for the New MIC market (€ 3,812.4 million) deposited by CCP members.

"Securities to be received/delivered for transactions to be settled", for € 1,513.0 and € 1,513.2 million, respectively; these represent the nominal value of open positions on the markets in which CC&G provides central counterparty activity, including securities withdrawn in the framework of the TS2 and ICSD settlement systems; the difference between the amount of securities to be received and those to be delivered represents that already withdrawn in the TS2 and ICSD Links settlement process.

Long Term Incentive Share Plan

Below is the information reported as requested by IFRS 2 on the subject of payments based on shares or options on shares.

The plans awarded to the employees of the group are the following:

- **Performance shares** plan has been implemented for a group of executives and senior managers, and consists of the option to receive, free of charge, shares of the London Stock Exchange Group, provided, however, that certain performance conditions are satisfied; this must be checked at the end of a three- year period (Performance Period) after the date of award.

Performance conditions are measured as follows:

- for 50% of the shares awarded: the number of shares to be awarded upon expiration of individual plans shall be determined on the basis of the positioning of the Total Shareholder Return (TSR) or the rate of return of LSEG shares in the accrual period calculated assuming the reinvestment of the dividends on the same shares;
- for the remaining 50% of the shares awarded: the number of shares to be awarded on expiration of individual plans shall be determined on the basis of the growth of EPS or the basic adjusted profit per LSEG share.
- **Matching shares** have been activated for a small group of executives and senior managers and allows them to invest personal resources, up to a maximum of 50% of the value of the basic salary after tax, in shares of the London Stock Exchange Group (so-called "investment shares") and receive a bonus (matching award) if certain performance conditions (TSR-EPS) are met after a period of three years from the grant date. The shares involved in the matching award will be finally awarded and transferred to the employee upon expiration of the third year after the date of assignment, provided, however, that the employee has held the "investment shares" and the employment relationship is still in existence.

- *The **performance related plan** was conceived to reward a selected group of highly performing employees showing a high potential.* As a participant in the plan, the employee is able to receive the bonus in the form of two different components:
  - the **restricted share award** that provides for the award of ordinary shares of LSEG Group to members if the performance conditions are achieved;
  - or the **share option award** in the form of option with an exercise price (i.e. the price that a member must pay for taking possession of a single share), and this, too, is subject to the same performance conditions as the restricted share award.

  Both awards have a three-year duration from the day of award.

  The performance conditions are measured as follows:

  1. for 50% of the shares awarded: the number of shares to be awarded upon expiration of individual plans shall be determined on the basis of the positioning of the Total Shareholder Return (TSR) or the rate of return of LSEG shares in the accrual period calculated assuming the reinvestment of the dividends on the same shares;
  2. for the remaining 50% of the shares awarded: the number of shares to be awarded upon expiration of individual plans shall be determined on the basis of the positioning of the Group costs compared to the specific budget targets.
- The **SAYE** (Save As You Earn) plan provides for the award of options on shares in favour of employees. At the time of award of the options the employee has the right to agree to participate in a saving plan, managed by the Yorkshire Building Society in the United Kingdom, which provides for monthly withdrawals from net salary for a period of three years starting from the implementation of the saving plan. The amounts paid in the three-year time-frame will bear interest. Upon expiration of the three-year term ("Maturity Date"), the plan allows for the purchase of ordinary shares of the London Stock Exchange Group Plc at a determined price. If conversely, upon expiration of the period, the value of the shares did not increase, the employee shall not be bound to purchase them and may simply withdraw the whole amount set aside for him/her, increased of accrued interest, if any.

The shares forming the subject of the LTIP are purchased on the market by LSEG.

The overall cost as of 31 December 2017 for the award of shares and options on shares is equal to € 743,209 inclusive of the severance indemnity.

Below is a table with the movements of LSEG shares in the framework of the LTIP and the weighted average exercise price:

Number of shares	Share Options	SAYE	LTIP	**Total**
Initial balance at 1 January 17	-	5,116	89,312	**94,428**
Shares granted		1,169	21,064	**22,233**
Shares transferred		63		**63**
Shares exercised		(1,658)	(33,895)	**(35,553)**
Shares forfeited				**-**
Shares lapsed			(4,286)	**(4,286)**
Final balance at 31 December 2017	**-**	**4,690**	**72,195**	**76,885**

The fair value of the shares granted in the framework of the LTIP in the financial year was determined using a probabilistic measurement model. The principal assumptions of evaluation used in the model are the following:

The fair value of share awards and share options granted during the year was determined using a stochastic valuation model. The key assumptions used in the valuation were as follows:

	SAYE Sharesave Plan	**LSEG LTIP** Performance Shares					**LSEG LTIP** Matching Shares	
Date of grant	03-Oct-17	03-Apr-17	10-Apr-17	18-Aug-17	07-Sep-17	17-Nov-17	10-Apr-17	17-Nov-17
Grant date share price	£38.75	£31.91	£32.27	£39.44	£38.46	£38.46	£32.27	£38.46
Expected life	3.33 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Exercise price	£31.11	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield	£0.01	1.35%	1.34%	1.16%	1.19%	1.19%	1.34%	1.19%
Risk-free interest rate	1%	0.16%	0.16%	0.27%	0.19%	0.58%	0.16%	0.58%
Volatility	25.50%	25.60%	25.50%	26.10%	26.00%	25.70%	25.50%	25.70%
Fair value	£10.21	-	-	-	-	-	-	-
Fair value TSR	n.a.	£11.87	£12.29	£15.71	£13.91	£14.12	£12.29	£14.12
Fair value EPS	n.a.	£30.64	£31.00	£38.09	£37.11	£37.11	£31.00	£37.11

IFRS 2 - paragraphs 46 and 47

46 - An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.

47 - If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle in paragraph 46, the entity shall disclose at least the following:

(i) the option pricing model used and the inputs to that model, including the weighted-average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;

(ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and

(iii) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.

Volatility has been calculated by means of a weekly analysis of the price of the LSEG share since its listing in July 2001. The fair value of the shares awarded during the financial year takes into account the maturity conditions linked to the TSR. The employees to whom the shares linked to the LTIP were awarded are not entitled to receive dividends declared by LSEG during the accrual period.

Relationships with related parties

Intercompany relations

The following table shows details of "non-atypical" transactions during the year with related parties and the equity balances as at 31 December 2017 including them.
(Amounts in Euro)

BIt Market Services S.p.A.	**Revenues**	**Receivables**
Fees for services	400	-
	Costs	**Payables**
Fees for services	44,686	35,356

Borsa Italiana S.p.A.	**Revenues**	**Receivables**
Fees for services	96,653	48,027
	Costs	**Payables**
Fees for services	2,682,755	218,350

EuroMTS Ltd	**Costs**	**Payables**
Fees for services	25,000	-

London Stock Exchange Group Holdings Italia S.p.A.	**Costs**	**Receivables**
Fees for services/tax receivables	1,035,159	3,806,753

London Stock Exchange Group plc	**Costs**	**Payables**
Fees for services	234,714	1,532,481

London Stock Exchange plc	**Revenues**	**Receivables**
Fees for services	984,125	58,692
	Costs	**Payables**
Fees for services	151,449	209,013

LSEG Business Services Ltd	**Revenues**	**Receivables**
Fees for services	48,000	-
	Costs	**Payables**
Fees for services	237,528	237,977

LSEG Technology Ltd	**Revenues**	**Receivables**
Fees for services	131,921	-

Monte Titoli S.p.A.	**Revenues**	**Receivables**
Fees for services	107,360	9,628
	Costs	**Payables**
Fees for services	3,906,944	306,666

Società per il Mercato dei Titoli Stato S.p.A.	**Costs**	**Payables**
Fees for services	2,400	-

Relationships with companies of the Group are governed on the basis of specific agreements, and on the basis of fees in line with those of the market (so called arm's length conditions).

Remunerations of the members of corporate bodies

As required by IAS 24, the following table provides the remuneration payable in the financial year just ended to the members of the Board of Directors, Board of Statutory Auditors and to the Key managers of the Company:

Directors and Key Managers	1,754,184
Auditors	70,000

With regard to executives with strategic responsibilities, below is a breakdown of the remuneration categories:

a. Benefits to short-term employees	1,147,983
b. Post-employment benefits	69,464
c. Other long-term benefits	-
d. Severance benefits	123,446
e. Payments based on shares	413,291
Total	**1,754,184**

Plan	**Number of shares**	**Date of award**
London Stock Exchange Group plc	1,403	09/04/2015
London Stock Exchange Group plc	1,604	18/03/2016
London Stock Exchange Group plc	781	07/04/2017
London Stock Exchange performance share award	9,099	02/04/2015
London Stock Exchange performance share award	6,620	17/03/2016
London Stock Exchange performance share award	6,554	03/04/2017
London Stock Exchange matching share award	6,554	10/04/2015
London Stock Exchange matching share award	6,282	18/03/2016
London Stock Exchange matching share award	3,093	10/04/2017
London Stock Exchange SAYE (Italy)	765	05/05/2015

Directors of the Companies of the Group receive no remuneration. The amount relating to the key managers represents the overall cost borne by the Company, inclusive of any and all supplemental elements. The key managers category includes managers with strategic responsibilities, i.e. with powers and responsibilities relating to planning, management and control of the business activities (Managing Director and General Manager).
No loans have been granted and no guarantees were issued in favour of Directors and Statutory Auditors.

Management and coordination
It is pointed out that as of the date of the financial statements for the year ended 31 December 2016, the company is subject to the management and coordination of London Stock Exchange Group Holdings Italia S.p.A.

Summary table of the essential data of the last approved financial statements of the Parent Company

The essential data of the Parent Company London Stock Exchange Group Holdings Italia S.p.A shown in the summary statement required by Section 2497-bis of the Italian Civil Code was extracted from the relevant financial statements for the financial year closed on 31 December 2016.
For an adequate and complete understanding of the equity and financial situation of London Stock Exchange Group Holdings Italia S.p.A at 31 December 2016, as well as of the economic results obtained by the Company in the financial year closed on that date, reference is made to the reading of the financial statements which, complete of the report prepared by the auditing firm, is available in the formats and manner provided by the law.

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

(Amounts in €/1000)	**31-dic-16**
Assets	
Non-current assets	1,440,273
Totale attività correnti	9,938
TOTAL ASSETS	**1,450,211**
Liabilities	
Non-current liabilities	243,811
Current liabilities	96,282
TOTAL LIABILITIES	**340,094**
NET ASSETS	**1,110,118**
EQUITY	
Capital reserves attributable to the Company's equity holders	
Share capital	350,000
Reserves	675,260
(loos)/profit of the period	84,857
TOTAL EQUITY	**1,110,118**

STATEMENT OF COMPREHENSIVE INCOME AT DECEMBER 31, 2016

(Amounts in €/1000)	**31-dic-16**
Revenues	104,876
TOTAL REVENUES	**104,876**
Employee's costs	1,412
Service costs	11,364
Depreciations and amortization	936
Operating expenses	212
TOTAL OPERATING COSTS	**13,924**
Finance income	10
Financ expenses	8,828
PROFIT BEFORE TAX	**82,135**
Taxes	2,722
NET INCOME	**84,857**
Other elements with an impact on Shareholders' Equity	3
TOTAL NET INCOME	**84,860**

Disclosure of auditing fees and fees for services other than the audit

Pursuant to Article 2427, paragraph 1, sub-paragraph 16 bis, of the Italian Civil Code, implementing the provisions of Article 37, paragraph 16 of Legislative Decree No 39 of 27 January 2010, the following table is shown below:

Services	Entity that provided the service	Fees (euro)
Legal accounting audit	EY S.p.A.	75,000
Other auditing services (Reporting Package)	EY S.p.A.	38,800
Certification services	EY S.p.A.	2,200
Total		**116,000**

Document relating to plans on security

The "simplification decree", published in the Official Bulletin of the Republic of Italy No 33 of 9 February 2012 actually eliminated the obligation to prepare an updated planning document on security (D.P.S.) on or before 31 March every year, however, it did not relieve the Data Controller of the processing of Sensitive Data from fulfilling all the prescriptions contained in Article 34 of Legislative Decree 196/2003 and its Annex B.

In light of the above, CC&G deemed it appropriate to prepare the DPS in any case in order to have at their disposal an instrument that would make it possible to check the performance of all the necessary fulfilments (such as information notices, appointment of internal and external data supervisors and persons in charge of personal data processing, privacy rules on electronic mail and internet), as well as the adequacy of information security and cyber security activity by the Systems Management Department responsible for computer security plans with particular regard to the following minimum security measures:

a) electronic authentication;

b) adoption of management procedures of authentication credentials;

c) utilization of an authorisation system;

d) periodical update of the scope of processing permitted to individual responsible officers and personnel in charge of the management or maintenance of electronic instruments;

e) protection of electronic instruments and data against wrongful processing, unauthorised accesses and certain electronic data processing programs;

f) adoption of procedures for the custody of security copies, restoration of data and systems availability;

g) adoption of encryption techniques or identification codes for data processing carried out by medical bodies suitable to disclose the health conditions or the sexual life of the people involved.

With the preparation of such DPS, in addition to relieving CC&G from any liabilities in case of occurrence of a damaging event, it is considered that the Company has been provided with valid support for better handling of the internal security processes and preservation of data and information from loss, destruction, unauthorised accesses, etc. Such DPS must be considered as a valid support tool also in the event of controls by the Privacy Guarantor Authority and the Finance Police on the upgrade of the security measures to which the data controller is bound and, in particular, the performance of the obligation to document the choices made within one's own organisation (during inspections the absence of a document that may attest this information would make finding it take longer and be more complex).

It is finally pointed out that an organisational model 231 has been implemented in CC&G for preventing not only the risk of the perpetration of crimes related to the wrongful processing of personal data but also the prevention of the perpetration of all electronic data processing crimes, through an accurate and documented security policy as documented in the DPS.

Capital requirements

The European Banking Authority approved in December 2012 the Delegated Regulation No 152 supplementing Regulation No 648/2012 (EMIR) concerning technical rules governing the equity requirements of central counterparties. Pursuant to Article 2, a central counterparty must have a capital (inclusive of undistributed profits and reserves) that must be, at any time, sufficient to hedge the total exposure to the following risks:

- risks relating to the liquidation or restructuring of assets,
- credit, counterparty's and market risks (not covered by specific financial resources pursuant to Articles 41 to 44 or EMIR Regulation),
- operational and legal risks,
- business risks.

The capital thus identified must be invested in secured assets for the purpose of complying with the provisions of Article 47 of EMIR Regulation. On the date of approval of these financial statements, CC&G invested its Regulatory Capital in Government Bonds.

If the capital held by the central counterparty decreases below 110% equity requirements ("notification threshold"), the CCP must notify the competent authority immediately, keeping it up to date until the amount of said capital increases and exceeds the above-mentioned notification threshold.

Moreover, pursuant to Article 35 of Delegated Regulation No 153 (ESMA), the central counterparty must hold and show separately in its balance sheet, an amount of equity resources ("skin-in-the-game") to be used as a defence line in the event of default by the members ("Default Waterfall"). Such an amount is calculated as 25% of the minimum capital (TCR). The CCP shall notify the competent authority immediately if the amount of the Skin in the Game to be held for Default Waterfall decreases below the mandatory minimum amount.

Article 45, paragraph 4 of EU Regulation No 648/2012 requires a CCP to have a share equal at least to 25% of the Regulatory Capital allocated to a restricted reserve ("skin-in-the-game").

From this the need derives to comply with such provisions of law and to allocate a share of the profit reserves to a restricted reserve. Such reserve shall be changed every year depending on the levels of Regulatory Capital, at the time of approval of the Financial Statements, in relation to the levels of risk of the Company.

Moreover, for the purpose of having additional aid in support of the regulatory capital, Cassa di Compensazione e Garanzia S.p.A. created an additional reserve, equal to € 1,000,000, intended to cover any losses (Internal Buffer), pursuant to the resolution of the Shareholders' Meeting of 6 November 2013.

The establishment of a reserve in the amount of € 1,500,000 pursuant to Article B.6.2.3. of CC&G regulations, was defined by the Managing Director on 18 November 2015, in agreement with the Deputy Chairman; such reserve is intended to cover the expenses for the default procedure of a clearing member (second "skin-in-the-game"), resolved upon later by the Board of Directors' meeting of 2 December 2015 and validated by the Shareholders' Meeting of 13 April 2016.

From a management standpoint, the calculation of the Regulatory Capital of Cassa di Compensazione e Garanzia S.p.A. - which takes into account the business risk, the market risk, the counterparty risk and operational risks - recorded at 31 December 2017, a "skin-in-the-game" equal to € 19,404,893 (25% of the total regulatory capital equal to € 77,619,573), an amount that is increased by 0.4% compared to the same data of 31 December 2016, equal to € 19,322,727.

The calculation of the Regulatory Capital at 31 December 2017 is shown below, from which the value of the "skin-in-the-game", the Internal Buffer and the second "skin-in-the-game" is inferred.

Compared to 31 December 2016, the calculation statement has been amended in order to improve clarity of presentation. In particular, the "skin-in-the-game" (SIG) item was subtracted from Total Net Shareholder's Equity with the aim of providing accurate information on the capital effectively free of restrictions and risk coverage (TCR + Notification Threshold).

Total Shareholders' Equity *(Amounts in euro)*	**31/12/2017**
Capital	33,000,000
Reserves (*)	89,608,041
Net profit allocated to reservers	2,275,966
Total Shareholder's Equity	**124,884,007**
Intangible assets	2,291,155
AFS and FTA reserves	1,649,298
Share awards	2,082,568
Total Shareholder's Equity after prudential filter	**118,860,986**
Skin in the game (SIG)	19,404,893
Total "NET" Shareholder's Equity	**99,456,093**

Capital Requirement as per art. 16 EMIR Regulation *(Amounts in Euro)*	**31/12/2017**
Winding down/restructuring requirement	11,478,119
Credit, Market and Counterparty risk	45,923,711
Operational risk	14,478,684
Business Risk	5,739,059
Total Capital Requirement (TCR)	**77,619,573**
Notification threshold (10%)	7,761,957
TCR + Notification threshold	**85,381,530**
Internal Buffer (IB)	1,000,000
Second Skin in the Game (SIG2)	1,500,000
TCR + Notification threshold + SIG2 + IB	**87,881,530**

(*) this item includes restricted reserves equal to € 21,822,727 linked to the "skin-in-the-game", the Internal Buffer and to the second "skin-in-the-game".

The Shareholders' Equity available pursuant to the applicable Provisions of Law, at 31 December 2017, amounts to € 118,860,986 (on an overall amount of Shareholders' Equity on the same date equal to € 124,884,007 including the profit for the year allocated to Reserves), having sterilised the impact of the reserves from First Time Adoption, Available for Sale, IAS 19 reserves and share awards, as well as the entire amount of intangible assets present in the assets side of the Balance Sheet on the date of these financial statements.
Following the requirements of Regulatory Capital, the Company has calculated, according to the parameters provided by EU Regulation No 152/2013 of the Commission of 19 December 2012:

- the risks of winding down and restructuring;
- the credit, counterparty and market risks;
- the operational risks;
- the business risks.

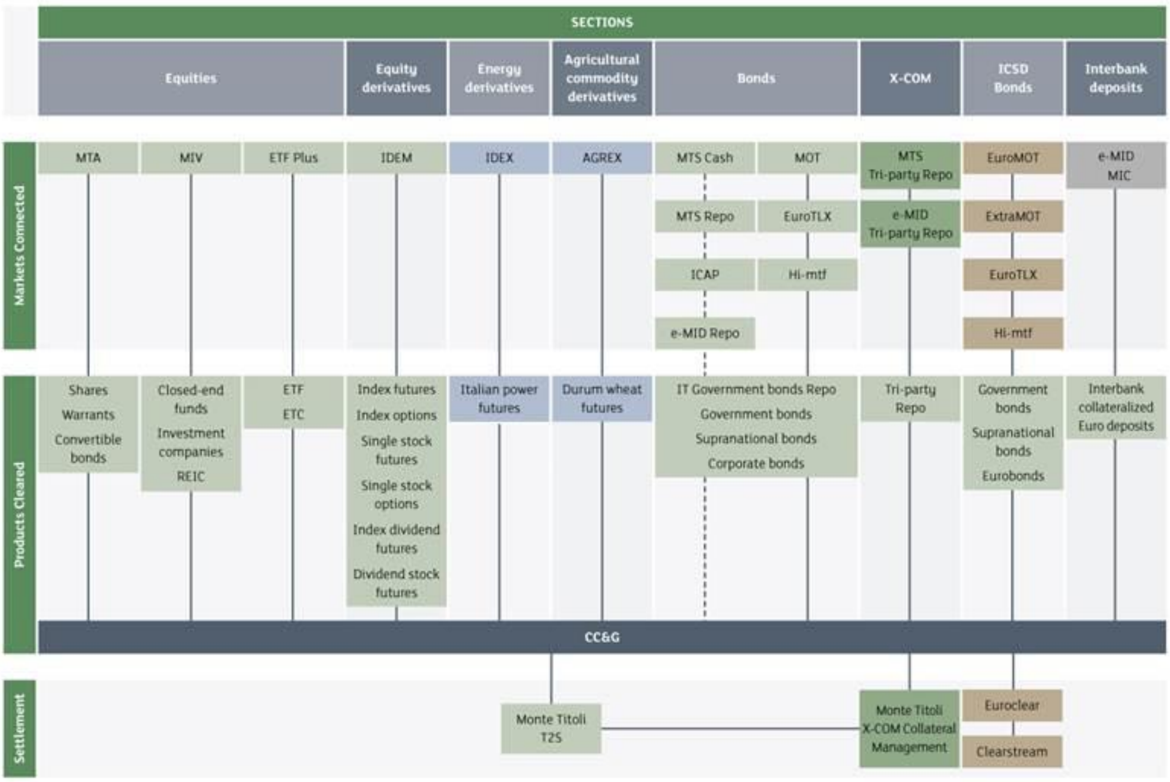
Such risks, evaluated on the basis of the corporate structure and solidity with respect to the market, have been calculated in € 77,619,573 (Regulatory Capital). A 10% notification threshold was then applied to such risks, pursuant to Article 1 of the above-mentioned EU Regulation.

The value of the regulatory capital alone, excluding the notification threshold, was also subject to a 25% guarantee threshold (skin-in-the-game) which will be allocated (following the approval of the Shareholders' Meeting of 20 April 2018) to a restricted reserve of up to € 19,404,893. The Internal Buffer reserve, equal to € 1,000,000 was allocated to a restricted reserve by the Shareholders' Meeting of 6 November 2013. The second "skin-in-the-game” reserve, as per resolution of the Board of Directors' meeting of 2 December 2015, was defined as € 1,500,000, and allocated to a restricted reserve by the Shareholders' Meeting of 13 April 2016.

Management of risks

Introduction

Cassa di Compensazione e Garanzia S.p.A. manages the central counterparty (CCP) guarantee system on a broad range of markets: shares, warrants and convertible bonds listed on MTA, ETF and ETC listed on ETF Plus, futures and options on single stocks and index listed on IDEM Equity, futures on electricity listed on IDfEX, futures on durum wheat listed on AGREX, closed end funds, investment companies and real estate investment companies listed on MIV, Italian Government Bonds listed on MTS, EuroMTS, BrokerTec and Repo e-MID, Italian Government Bonds and bonds listed on MOT, EuroTLX and Hi-MTF. Moreover, CC&G S.p.A. offers its services on the collateralised interbank market MIC. In 2017, options traded on MTAs and MIVs and repo contracts on government securities issued by Spain, Portugal and Ireland traded on MTS were included in the guarantee system.
CC&G avoids the counterparty risk by becoming contractual counterparty itself to members in organised markets and single Stock Exchange Group guarantor of the good outcome of the contracts acting as buyer in relation to the sellers and, vice-versa, operating in the capacity as seller in relation to the buyers.



CC&G activities are subjected to the supervision of the Bank of Italy and Consob, which approve its regulations.

CC&G's financial protection system is based on 4 levels of protection:

1. membership requirements
2. margin system
3. default funds
4. equity and financial resources.

1. Membership requirements

Membership is the CC&G first line of defence, and establishes which members may be admitted to the system. It is possible to become member of CC&G as direct clearing member, general or individual (becoming counterparty to CC&G), or as customer negotiator (becoming counterparty to a general member). Clearing members must have a minimum regulatory capital. Each clearing member must also have an organisational structure, as well as technological and electronic systems, ensuring an orderly, continuing and efficient management of activities and relationships required by CC&G regulations.

2. Margin system

The margin system represents a fundamental system of risk management adopted by CC&G. Members must post sufficient guarantees to cover the theoretical liquidation costs that CC&G would incur in case of default, in order to close the member's position in the most unfavourable, reasonably possible, market scenario. All clearing members are, therefore, requested to pay margins on all open positions, except for specific relationships entered into with the Market Manager (GME) as direct counterparty of the Company on the market of energy derivatives, in consideration of the peculiarity of the GME and of the guarantee system to which it is subject.

The margins applied to each category of financial instruments are determined on the basis of statistical analyses so as to provide for a prefixed coverage level compared to price variations actually recorded.

Margins are calculated using the MARS - Margining System methodology for IDEM and BIT markets and the MVP methodology (Method for Portfolio Valuation) for fixed income markets. Finally, MMeL methodology is applied to the energy derivatives section and MMeG methodology to the derivatives section of Agricultural Commodities.

The above-mentioned methodologies are efficient, reliable and accurate margin calculation systems able to recognise the overall portfolio risk and enable the netting of risks between strictly correlated products. MARS - Margining System methodology permits the cross-margining between equity and derivatives instruments composing the portfolio.

Fundamental principles applying to equity and equity derivatives sections: MarS

All financial instruments that are considered by CC&G as significantly correlated with one another in terms of price variations are included in one single Integrated Portfolio and, therefore, Initial Margins are calculated at portfolio level.

CC&G's Margining System method enables determination, at an overall aggregate level, of the risk exposure of each member per:

- Group of products: integrated portfolio including underlying assets with price variations with significant statistical correlation;

- Group of classes: integrated cash-derivative portfolio relating to the same share (options, futures and shares on the same share).

In order for a member to be allowed to benefit from cross-margining on cash-derivatives integrated portfolios it is necessary that they are a general member or individual member in both sections, or, if they are a customer negotiator, that they uses the same general member in both markets.

Fundamental principles governing the bond section: MVP
The MVP methodology allows for inclusion in Classes of financial instruments that are significantly correlated with one another, on the basis of their specific sensitivity to interest rate changes, measured through "Duration" or Time to Maturity. It allows for offsetting the risk between positions of opposite sign of instruments pertaining to the same Class of Duration or Life at Maturity, as well as between Classes of contiguous and well related Durations.

Fundamental principles governing the energy derivatives section: MMeL
Derivatives contracts traded on IDEX are included in a single Integrated Portfolio and, therefore, Initial Margins are calculated at portfolio level. The MMeL margining methodology provides for a class structure, each of which includes all contracts of the same kind (futures) with the same underlying asset (settlement price of the contract related to Italy) and the same characteristics (delivery period and supply type: *Baseload and Peakload*). Effective August 2016 the method was refined in order to allow for the application of Product Groups fulfilling EMIR/EMSA regulatory requirements.

In addition to the final cash settlement, the option for the physical delivery/collection of the energy underlying the subscribed futures contract is also permitted. Such settlement takes place outside CC&G's system, on the platform of the Energy markets manager, according to the rules in force therein.

Fundamental principles governing the derivatives section on agricultural commodities: MMeG

Derivatives contracts of Durum Wheat traded on AGREX are included in one single Integrated Portfolio and, therefore, Initial Margins are calculated at portfolio level.

MMeG margining methodology defines a structure of Classes comprising: delivery positions, and uncovered positions in delivery and matched delivery positions of the Withdrawing Counterparty and that in Delivery.

Collateral
The Initial Margins may be covered both in cash (Euro) and/or in Euro denominated Government Bonds, traded on MTS and issued by countries of the Eurozone characterised by a low level of credit risk and market risk. The value of the guarantees deposited in securities usable to cover the initial margins is determined on the basis of the concentration limits.

The valorisation methodology also provides that each government bond deposited at CC&G to cover initial margins is evaluated daily, including intraday, applying a precautionary 'haircut' on the basis of the duration of the security.

Intraday margins can be hedged in cash (Euro) and from 27 November 2017 they can also be hedged through the use of government bonds.

3. <u>Default funds</u>

CC&G has an additional protection that is added to the margins system, represented by default funds. The function of default funds is to hedge the risk, generated by extreme changes in market conditions, and not guaranteed by the margin system; the objective is to ensure the integrity of the markets also in the event of multiple defaults in extreme market conditions, in line with the provisions of EMIR.

The volumes of default funds are determined by CC&G on the basis of the results of the "stress tests" performed daily. Such results are reviewed by the Risk Committee of CC&G which modifies the amount of the default funds if it considers it necessary.

As of 31 December 2017 the default funds were made up as follows:

- Equity and equity derivatives sections: € 1,300 million;
- Bond section: € 3,800 million;
- Energy derivatives section: € 11 million;
- Agricultural commodities derivatives section: € 100,000;
- Default funds section for the MIC: € 122 million.

The adjustment of the default fund contribution quota for the participants is usually performed on a monthly basis, on the basis of the initial margins paid in the preceding month. For a general clearing member, the contribution quota to be deposited also includes those relating to its customer negotiators, if any.

The payment of the contribution quota to the default fund must be made in cash (Euro).

4. Equity and financial resources

As at 31 December 2017 the shareholders' equity of CC&G is equal to € 167.9 million. Moreover, CC&G has provided itself of adequate credit lines negotiated with the main Italian banks, in order to cope with the needs linked to the management of the settlement phase (T2S and ICSD).

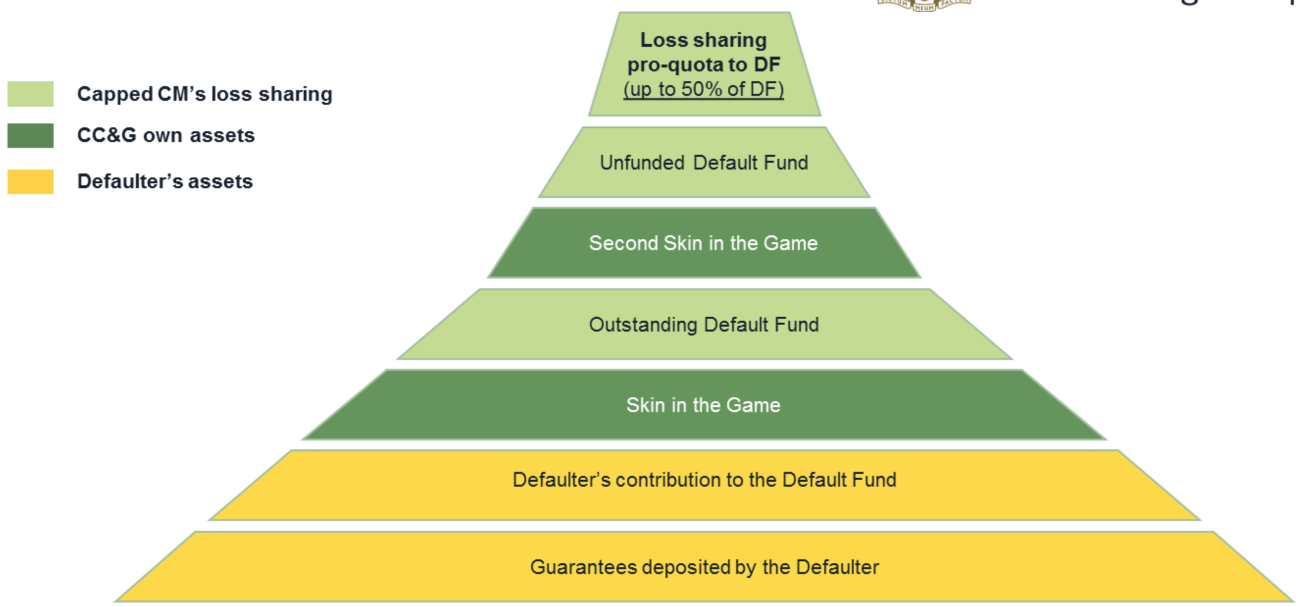
Insolvency proceedings against a member

In case of default of a clearing member, for covering the losses CC&G uses the following resources:

a) the margins deposited by the defaulting member;
b) the contribution to the default fund of the defaulting member;
c) CC&G's own resources ("skin-in-the-game"), determined in compliance with the limits provided by Article 45 of EMIR Rules;
d) contributions to the default fund of other clearing members of the section concerned, in proportion to the amounts paid and limited to the losses related to the section concerned;
e) CC&G's own resources to the amount of €1.5m (second "skin-in-the-game");
f) the contribution to the default fund not financed in advance by other members, in proportion to the payment of contributions to the default fund of the section concerned.

When resources of the default waterfall listed in sub-paragraphs a)-f) of the preceding paragraph do not appear to be sufficient, CC&G will distribute the remaining losses *pro rata* to non-defaulting members on the basis of the contribution quota to the default fund for the related section. In any case, the losses that can be allocated to non-defaulting members shall be subject to a maximum limit represented by 50% of the amount of additional resources requested from such members and defined in Article B.6.2.3, letter f) of the regulations.

Upon completion of the foregoing activities, CC&G may, in order to ensure the continuity of the business of the other sections and of the interoperable CCP, after notifying the competent authorities, close the section. For this purpose, CC&G may take into account, by way of example, the following elements: the importance of counterparty risk mitigation for members, the number of members, the amount of guaranteed values.



The amount of the Skin-in-the-game, corresponding to 25% of the minimum regulatory capital, is equal to € 19,404,893 as of 31 December 2017.[1]

CC&G recovery plan and changes in the management of a default

CC&G has developed a recovery plan in compliance with the guidelines defined in the report prepared by CPMI IOSCO "report on recovery of financial market infrastructures" published in October 2014 and in the document "principles for financial markets infrastructures (PFMIs)" published in April 2012.
The objective of the recovery plan is to define the information and procedures necessary to allow CC&G to continue to provide its critical services even in the remote hypothesis in which its survival is threatened. The recovery plan has been structured in such a way as to allow CC&G, its Participants and all their stakeholders to overcome these extreme circumstances and increase the possibility that the most appropriate tools to cope with these stress conditions will be used. This reduces the risk that the effectiveness of recovery actions will be diminished by a climate of uncertainty.
CC&G has identified its 'critical' services, i.e. those services which ensure normal functioning of markets served by CC&G and the safeguarding of financial stability. Potential scenarios that could prevent the CCP from running normally were consequently identified. Based on the scenarios identified, CC&G has included the description of the scenarios in the recovery plan, the events that could trigger these scenarios, the list of preventive controls that CC&G uses to monitor these events, the financial/organisational impacts of the scenarios on the CCP and its members and the measures to be implemented in the event that these scenarios occur.

Insolvency proceedings against a special member (interoperable CCP)

In case of default of a special member, CC&G charges the losses and expenses suffered in the following order:

a) to the margins deposited by the special defaulting member;

b) to CC&G own resources, referred to as Internal Buffer in the amount of €1 million, within the limits established in an appropriate release/notification;

[1] Such amount, resulting from the calculation of the regulatory capital at 31/12/2017, as shown in the current proposed financial statements, will replace, following approval by the Board of Directors' Meeting and the Shareholders' Meeting, the preceding value of € 19,322,727.

c) to the members which have a positive balance following a cash settlement, through a reduction in proportion to the amounts due to them.

If the special member ceases the central counterparty service in relation to its members and proceeds with a settlement in cash also in relation to CC&G, CC&G reserves the right to proceed with a cash settlement in relation to members participating in the market concerned.

MIC guarantee system

CC&G S.p.A. defines the rules of the MIC guarantee system and in particular:

a) membership procedures;
b) suspension, exclusion and withdrawal from the system;
c) netting and guarantee of contracts concluded on the market and the settlement procedures;
d) rules governing guarantees;
e) management of the default procedures of the member.

Participants in the MIC market are banks, which comply with the rules set out in the "Regulation of the MIC guarantee system in force since 11 October 2010" available on the http://www.ccg.it/Company's website.

The necessary condition for enabling members in the market to operate on the MIC is the prior constitution of a collateral, the value of which must be and must remain higher than the exposure that the members assume in the interbank contracts.

Cassa di Compensazione e Garanzia S.p.A. receives securities in the form of collateral, which are submitted daily to suitability and evaluation controls as dictated by the annexes to the above-mentioned regulation.

For additional information and details, reference is made to the documentation available on the Company's internet site.

Definition of risks

The main risks identified, monitored and actively managed by CC&G are the following:

(i) country risk
(ii) market risk
(iii) credit risk
(iv) issuer risk
(v) liquidity risk
(vi) interest rate risk
(vii) exchange risk
(viii) operational risk

The management of such risks is governed according to the "Investment Policy".

The definition of operational risks, as well as the consequent management and control methodology, is instead regulated by the "Operational Risk Manual".

Country risk

Country risk is the risk that the Company may suffer losses from a worsening of the creditworthiness or default of a sovereign country which is the issuer of financial instruments that have been the object of investments or whose institutions have a debit with the Company.

For the purpose of mitigating such risk, CC&G limits its investments to securities issued by sovereign countries of the European Union in possession of a qualified rating on the basis of the

"SRF" (Sovereign Risk Framework) method adopted for the monitoring and management of country risk.

Moreover deposits, or receivables of any kind that CC&G may claim in relation to institutions located in the country considered are included in such limits.

Market risk

The risk that CC&G may suffer losses as a result of changes in value of the financial instruments traded on the markets for which the Company exercises its central counterparty function or changes in value of the financial instruments in which the Company invested the margins acquired from the members or its own resources is referred to as market risk.
a) Financial instruments traded on markets for which the Company exercises its central counterparty function.
In carrying out its typical activity as a central counterparty, CC&G does not incur any market risks since the positions assumed as buyer and seller in relation to all the other counterparties that operate on guaranteed markets, are balanced with respect to amounts, maturities and prices. In case of a member default the risk is mitigated by the collection of the guarantees represented by initial margins and default funds.
b) Investments in financial instruments of margins, deposits of default funds or own resources.
The Company's activity is governed by EU Regulation 648/2012[1] on OTC derivative instruments, central counterparties and trade repositories, subsequently supplemented by EU Delegated Regulation No 153/2013[2] issued concerning technical standards related to the requirements for central counterparties.

In compliance with the above-mentioned rules and regulations, CC&G invests its financial resources exclusively in cash or highly liquid financial instruments with minimum market and credit risks.

Credit risk

Credit Risk is the risk that CC&G may suffer losses that derive from a worsening of the creditworthiness or default of a counterparty:

a) of which (members of the guarantee systems) have guaranteed themselves risks in the performance of the business mission of the central counterparty. The risk is mitigated by the application of the admission criteria to the guarantee systems provided by the Company's regulations, approved by the Bank of Italy together with Consob, and by the right to request increased margins, including intraday, from members having a temporarily worsened creditworthiness.

b) at which amounts of money have been deposited from margins, default funds contributions or own resources.

Investments in securities
For the purpose of mitigating the credit risk, CC&G may invest in financial instruments of the monetary or financial market issued by a sovereign state of the European Union with a sufficient creditworthiness. As of 31 December 2017, approximately 47.11% of invested cash appears to be invested in Government Bonds.

Deposits with banks
For the purpose of mitigating the credit risk, CC&G may make deposits at the Central Bank or make deposits or "repo" transactions with credit institutions with a sufficient credit

[1] *(EU) Regulation No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivative instruments, central counterparties and data registers on negotiations*

[2] *(EU) Delegated Regulation No 153/2013 of the Commission, dated 19 December 2012, supplementing (EU) Regulation No 648/2012 of the European Parliament and of the Council, concerning technical regulation rules relating to the requirements for central counterparties*

worthiness, selected according to the criteria and within the amount limits set out in the "Investment Policy". CC&G adopts an internal rating method able to provide an evaluation of the counterparties on the basis of financial statements and market data, as well as on the basis of the ratings provided by the three rating agencies.

c) on which securities were deposited for custody and administration.

To mitigate this limit, CC&G deposits securities with the national central depositary Monte Titoli S.p.A. (belonging to the LSE Group) or the International Central Securities Depositories or the Central Bank, for intraday refinancing.

Issuer risk

The risk that the Company may suffer losses deriving from the worsening of the creditworthiness or default of an issuer of financial instruments in which the Company has invested, is referred to as issuer risk. Reference is made to the "Credit risk" section.

Liquidity risk

The liquidity risk is the risk that the Company is unable to satisfy its payment obligations on the dates these fall due.
With regard to liquidity, the Company, in addition to the obligations deriving from its CCP core business, must take into account those deriving from its participation in the "Target II" securities settlement process managed by Monte Titoli and the securities settlement process managed by the "ICSDs" through Euroclear.

The monitoring of the liquidity risk, in ordinary conditions as well as stress conditions, is performed according to the provisions of the liquidity plan approved by the Board of Directors in line with the EMIR/ESMA regulatory requirements.
The mitigation factors of these risks provided by the liquidity plan comprise the following:
- the right to access intraday re-financing at the Central Bank;
- the availability of collateralised and non collateralised credit lines, granted by leading commercial banks;
- the option to enter into financing repurchase agreements with qualified counterparties in the tri-party platforms of Euroclear and Clearstream.

Interest rate risk

The risk that the Company may suffer losses deriving from fluctuations in interest rate levels at which items of the assets and liabilities of the financial statements, which are not matched according to maturities or reference rate parameter, are exposed is referred to as interest rate risk.

At 31 December 2017 the Company remunerates, with the reference parameter of the short-term rate "EONIA" -30 bps the initial guarantee margins and "EONIA" -25 bps the members' deposits for the default funds.
Any derivatives, such as interest rate swaps, may be used exclusively for hedging the risk. As of 31 December 2017 no derivative transactions appear to be in existence.
From the standpoint of loans and/or investments, the Company has no loans in existence. However, at December 31, 2017, a repo for a loan was active for an amount of € 200,000,000.

Exchange rate risk (FX risk)

The risk that the Company may suffer losses from a fluctuation of the Euro exchange rates, in which its capital is denominated and its accounting books are expressed, or of other currencies in which items of the financial statements not balanced in equal currency are expressed, is referred to as exchange rate or FX risk. The Company has not operated under conditions that entailed an FX risk.

Operational risk

The risk that the Company may suffer losses caused by the operational activity of its employees, processes, electronic systems, external suppliers and unexpected events is referred to as operational risk.

The management of operational risk, in general, is the responsibility of the Risk Policy Office, which prepares a quarterly update report for the Group Risk Department. The Risk Policy office also gathers any problems or incidents relating to operativeness; the management procedure of such incidents is the responsibility of the head of the Risk Policy office.

To supervise operational risk, CC&G has arranged a mapping of all processes relating to its business and of the risks connected thereto. For each process, "delicate" procedures and detailed policies have been carried out, which are updated on a periodical basis.

The electronic system (technology risk) complies with the guidelines of the Bank of Italy on business continuity:

i) operations are guaranteed by an architectural configuration that provides for the availability of four different operational sites connected through high speed lines (two sites availing themselves of central systems of analogous configuration, permanently managed and maintained at > 500 km distance and data alignment in real time);

ii) re-start option in disaster recovery situation within two hours;

iii) disaster recovery and business continuity tests are conducted at least once a year;

iv) external supplies are selected according to the above-mentioned guidelines.

The whole plan is regularly tested, constantly updated and disseminated within the structure.

In 2017 CC&G further strengthened contingency measures of its data centre at the Rome office by choosing a new housing supplier equipped with the most sophisticated technologies required by international standards and traceable to the Tier4 standard.

Rome, 20 March 2018

for the Board of Directors
the Chairman
Renato Tarantola

4. Board of Statutory Auditors' Report

5. Report by the Auditing Firm