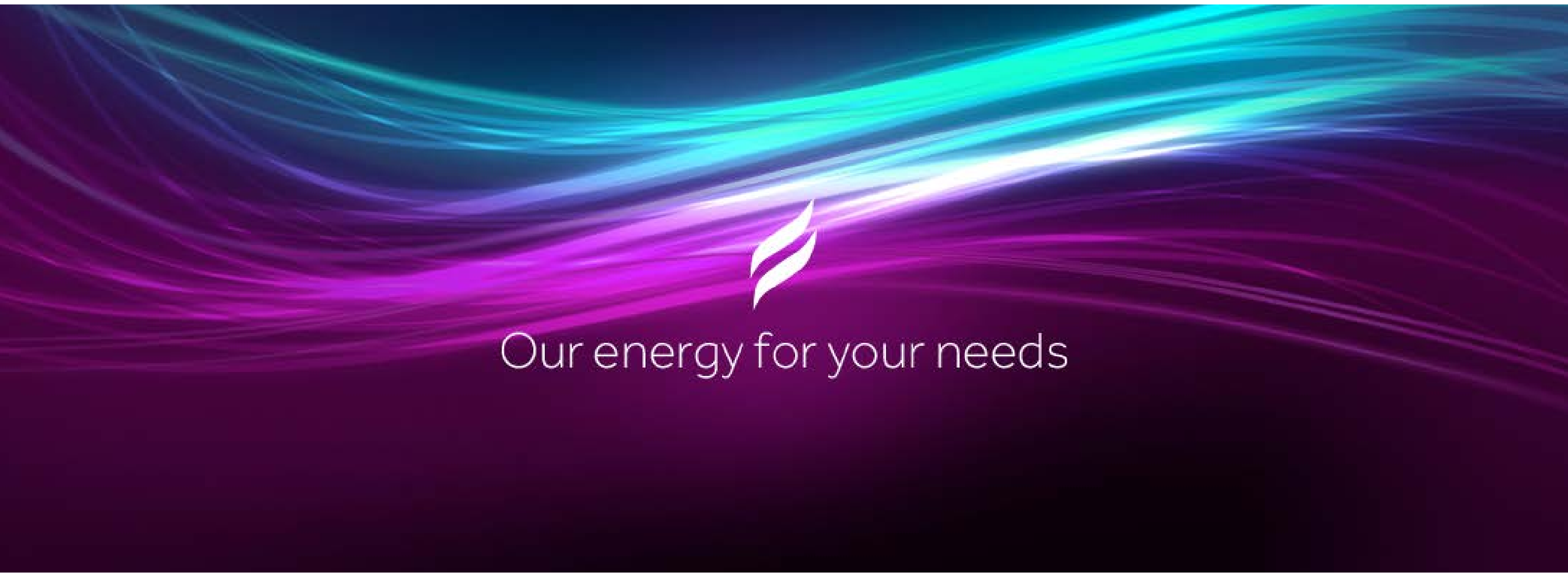
CENTREX

2017 Financial Statements

Our energy for your needs



More value to energy every day.

Centrex Italia S.p.A. is active in the import, sale and trading of natural gas.

The company, operative from October 2008, with sale volumes rising steeply, can rely on a diversified supply portfolio and relevant transport and storage capacity.

Financial Statements at 31 | 12 | 2017

Balance Sheet
at 31/12/2017

BALANCE SHEET ASSETS	31/12/2017	31/12/2016
B) Fixed assets		
I - Intangible fixed assets		
4) concessions, licenses, trademarks and similar rights	227,626	285,100
6) fixed assets underway and deposits	19,000	0
7) others	113,330	109,369
Total intangible fixed assets	**359,956**	**394,469**
II - Tangible fixed assets		
4) other assets	151,501	83,997
Total tangible fixed assets	**151,501**	**83,997**
III - Financial fixed assets		
1) equity investments in		
a) subsidiaries	2,017,566	1,711,566
Total equity investments	**2,017,566**	**1,711,566**
4) derivatives	57,267	179,037
Total financial fixed assets	**2,074,833**	**1,890,603**
Total fixed assets (B)	**2,586,290**	**2,369,069**
C) Current assets		
I - Inventories		
4) finished products and goods	27,979,431	17,597,470
Total inventories	**27,979,431**	**17,597,470**
II - Receivables		
1) from customers		
due by the end of the next financial year	113,695,682	98,857,717
Total receivables due from customers	**113,695,682**	**99,713,549**
2) from subsidiaries		
due by the end of the next financial year	1,121,656	1,005,530
Total receivables due from subsidiaries	**1,121,656**	**1,005,530**
4) from parent companies		
due by the end of the next financial year	403,887	206,794
Total receivables due from parent companies	**403,887**	**206,794**
5-bis) tax credits		
due by the end of the next financial year	759,027	2,081,113
Total tax credits	**759,027**	**2,081,113**

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BALANCE SHEET ASSETS	31/12/2017	31/12/2016
5-ter) prepaid taxes	497,268	71,823
5-quater) from others		
due by the end of the next financial year	1,196,028	1,028,211
Total receivables due from others	**1,196,028**	**1,028,211**
Total receivables	**117,673,548**	**103,251,188**
III - Financial assets not classified as fixed assets		
5) derivatives	43,047	349,951
Total financial assets not classified as fixed assets	**43,047**	**349,951**
IV - Cash and cash equivalents		
1) bank and postal deposits	5,593,062	3,654,171
3) cash and other cash equivalents	633	1,253
Total cash and cash equivalents	**5,593,695**	**3,655,424**
Total current assets (C)	**151,289,721**	**124,854,033**
D) Accruals and deferrals		
	173,379	159,883
Total assets	**154,049,390**	**127,382,985**

BALANCE SHEET LIABILITIES	31/12/2017	31/12/2016
A) Shareholders' equity		
I. Share capital	5.000.000	5.000.000
IV. Legal reserve	374,171	278,200
Capital payments	925	925
Various other reserves	421,076	34,647
Total other reserves	**422,001**	**35,572**
VII - Reserve, hedging of expected financial flows	57,267	457,142
VIII - Retained earnings (losses)	7,109,241	5,285,798
IX - Profit (loss) for the year	(1,296,495)	1,919,414
Total shareholders' equity	**11,666,185**	**12,976,126**
B) Provisions for risks and charges		
2) for taxes, including deferred	1,101	3,818
3) derivatives	396,186	290,041
4) others	221,327	221,327
Total provisions for risks and charges	**618,614**	**515,186**
C) Employee severance indemnity		
	222,012	170,982
D) Payables		
4) payables to banks		
due by the end of the next financial year	49,273,789	32,953,122
Total payables to banks	**49,273,789**	**32,953,122**
7) trade payables		
due by the end of the next financial year	83,996,222	72,321,127
Total trade payables	**83,996,222**	**72,321,127**
9) payables to subsidiaries		
due by the end of the next financial year	0	335,974
Total payables to subsidiaries	**0**	**335,974**

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BALANCE SHEET LIABILITIES	31/12/2017	31/12/2016
11) payables to parent companies		
due by the end of the next financial year	6,197,019	5,821,330
Total payables to parent companies	**6,197,019**	**5,821,330**
12) tax payables		
due by the end of the next financial year	749,393	165,010
Total tax payables	**749,393**	**165,010**
13) payables due to pension and social-security institutions		
due by the end of the next financial year	83,714	86,797
Total payables due to pension and social-security	**83,714**	**86,797**
14) other payables		
due by the end of the next financial year	267,656	1,021,212
due after the end of the next financial year	931,268	932,460
Total other payables	**1,198,924**	**1,953,672**
Total payables	**141,499,061**	**113,637,032**
E) Accrued expenses and deferred income		
	43,518	83,659
Total liabilities	**154,049,390**	**127,382,985**

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INCOME STATEMENT	31/12/2017	31/12/2016
A) Value of production		
1) revenue from sales and services	845,811,373	607,510,834
5) other revenue and income		
others	1,137,580	146,791
Total other revenues and income	**1,137,580**	**146,791**
Total value of production	**846,948,953**	**607,657,625**
B) Cost of production		
6) raw and subsidiary materials, consumables and goods	826,409,890	572,878,636
7) services	28,888,103	22,963,810
8) use of third-party assets	367,912	272,657
9) personnel		
a) wages and salaries	1,495,471	2,377,700
b) social security contributions	406,970	516,979
c) employee severance indemnity	36,352	110,351
d) provisions for pensions and similar obligations	99,292	86,816
e) other costs	42,966	40,148
Total personnel costs	**2,081,051**	**3,131,994**
10) amortisation, depreciation and write-downs		
a) amortisation of intangible fixed assets	83,447	87,383
b) depreciation of tangible fixed assets	26,510	27,127
d) write-downs of receivables included in current assets and cash and cash on hand	0	493,741
Total amortisation, depreciation and write-downs	**109,957**	**608,251**
11) changes in inventories of raw and subsidiary materials, consumables and goods	(10,381,961)	3,890,819
14) other operating expenses	428,707	341,565
Total costs of production	**847,903,659**	**604,087,732**
Difference between the value and costs of production (A - B)	**(954,706)**	**3,569,893**

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INCOME STATEMENT	31/12/2017	31/12/2016
C) Financial income and expense		
16) other financial income		
d) income other than the above		
others	36,829	84,489
Total income other than the above	36,829	84,489
Total other financial income	**36,829**	**84,489**
17) interest and other financial expenses		
others	316,936	621,092
Total interest and other financial expenses	**316,936**	**621,092**
17-bis) exchange gains (losses)	(7,170)	(168)
Total financial income and expense (15 + 16 - 17 + - 17-bis)	**(287,277)**	**(536,771)**
D) Value adjustments of financial assets and liabilities		
18) revaluations		
d) of derivatives	224,765	332,125
Total revaluations	**224,765**	**332,125**
19) write-downs		
d) of derivatives	746,137	550,319
Total write-downs	746,137	550,319
Total value adjustments of financial assets and liabilities (18 - 19)	**(521,372)**	**(218,194)**
Pre-tax result (A - B + - C + - D)	**(1,763,355)**	**2,814,928**
20) Income taxes for the year: current, deferred and prepaid		
current taxes	0	895,027
taxes related to previous years	(38,698)	0
deferred and prepaid taxes	(428,162)	487
Total income taxes for the year: current, deferred and prepaid	**(466,860)**	**895,514**
21) Profit (loss) for the year	**(1,296,495)**	**1,919,414**

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CASH FLOW STATEMENT (INDIRECT METHOD)	31/12/2017	31/12/2016
Cash Flow Statement (indirect method)		
A) Cash flows from operating activities (indirect method)		
Profit (loss) for the year	(1,296,495)	1,919,414
Income tax	(466,860)	895,514
Interest expense/(income)	280,107	536,603
1) Profit (Loss) for the year before income tax, interest, dividends and capital gains/losses from disposals	(1,483,248)	3,351,531
Adjustments for non-monetary elements with no balancing entries in net working capital		
Amortisation/depreciation of fixed assets	109,957	114,510
Value adjustments for derivative assets and liabilities not involving monetary movements	521,372	218,194
Other adjustments increasing/(decreasing) non-monetary elements	36,352	110,351
Total adjustments for non-monetary elements with no balancing entries in net working capital	**146,309**	**443,055**
2) Cash flow before changes in net working capital	(1,336,939)	3,794,586
Changes in net working capital		
Decrease/(Increase) in inventories	(10,381,961)	3,890,818
Decrease/(Increase) in receivables from customers	(14,837,965)	(6,819,242)
Increase/(Decrease) in trade payables	11,675,095	14,798,943
Decrease/(Increase) in accrued income and prepaid expenses	(13,496)	33,201
Increase/(Decrease) in accrued expenses and deferred income	(40,141)	82,145
Other decreases/(increases) in net working capital	2,676,822	(1,385,506)
Total changes in net working capital	**(12,050,982)**	**10,600,359**
3) Cash flow after changes in net working capital	(13,387,921)	14,394,945
Other adjustments		
Interest received/(paid)	(280,107)	(536,603)
(Income tax paid)	(280,098)	(442,728)
Other collections/(payments)	14,678	(69,459)
Total other adjustments	**(545,527)**	**(1,048,790)**
Cash flow from operating activities (A)	**(13,933,448)**	**13,346,155**

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CASH FLOW STATEMENT (INDIRECT METHOD)	31/12/2017	31/12/2016
B) Cash flows from investment activities		
Tangible fixed assets		
(Investments)	(94,014)	(21,908)
Intangible fixed assets		
(Investments)	(48,934)	(177,828)
Financial fixed assets		
(Investments)	(306,000)	(1,201,566)
Cash flow from investment activities (B)	**(448,948)**	**(1,401,302)**
C) Cash flows from financing activities		
Third party funding		
Increase/(Decrease) in short-term payables due to banks	16,320,667	(10,852,653)
Cash flow from financing activities (C)	**16,320,667**	**(10,852,653)**
Increase (decrease) in cash and cash equivalents (A ± B ± C)	**1,938,271**	**1,092,199**
Cash and cash equivalents at the beginning of the year		
Bank and postal deposits	3,654,171	2,562,784
Cash and cash equivalents on hand	1,253	441
Total cash and cash equivalents at the beginning of the year	**3,655,424**	**2,563,225**
Cash and cash equivalents at year end		
Bank and postal deposits	5,593,062	3,654,171
Cash and cash equivalents on hand	633	1,253
Total cash and cash equivalents at year end	**5,593,695**	**3,655,424**

Milan, 28 February 2018

For the Board of Directors
The Chief Executive Officer
Michele Libutti

Notes to the Financial Statements at 31/12/2017

EXPLANATORY NOTES, FIRST PART

Introduction

The financial statements, subject to your review and approval, show a loss for the year of € 1,296,495.

The company is not subject to management and coordination by the sole shareholder pursuant to Article 2497 of the Italian Civil Code.

Business activities

Your company's purpose is to create and use energy and gas production plants, the strategic structuring of energy and gas supply contracts, as well as creating distribution structures, the sale and distribution of oil and natural gas products, and the purchase and sale of energy and natural gas.

Structure and content of the Annual Financial Statements

The financial statements for the year ending 31/12/2017, consisting of the Balance Sheet, Income Statement, Cash Flow Statement and Explanatory Notes, correspond with the entries in the regularly kept accounting records and were prepared in compliance with the provisions of Arts. 2423 and 2423-bis of the Italian Civil Code, as well as the accounting standards and recommendations prepared by the Italian Accounting Body (OIC).
The financial statements were prepared on a going concern basis.

Their structure complies with what is outlined in Arts 2424 and 2425 of the Italian Civil Code, on the basis of the premises laid down in Art. 2423-ter, while the Explanatory Notes, which are an integral part of the Annual Financial Statements, comply with the content envisaged in Articles 2427, 2427-bis and all the other provisions which refer to the same.

The entire document, in its constituent parts, was prepared to offer a true and accurate representation of the Company's equity and financial situation, as well as its economic results during the year, providing additional information complementary to this goal when necessary.

Pursuant to article 2423-ter, the amount for the previous financial year is indicated for each item.
With regard to information on the Company's economic and financial performance and relationships and transactions occurring with related parties, please refer to the Report on Operations.

Accounting standards

In compliance with the provisions of Article 2423-bis of the Italian Civil Code, the following standards were observed when preparing the Financial Statements:

- the valuation of individual items was performed in compliance with the general principles of prudence and on a going concern basis, as well as bearing in mind the substance of the transaction or contract;
- only profits effectively realised during the year were recognised;
- income and expenses accruing during the year were indicated, regardless of their actual date of payment;
- risks and losses accruing during the year were taken into account, even if only discovered after the end of the year;
- heterogeneous elements included in the various items of the financial statements were measured distinctly.

The measurement criteria provided for in Art. 2426 of the Italian Civil Code were kept unaltered with respect to those adopted in the previous financial year, with the exception of those outlined above.

The Annual Financial Statements, as well as these Notes, were prepared in Euro.

Measurement criteria adopted

In preparing these Financial Statements, the measurement criteria envisaged in article 2426 of the Italian Civil Code were applied.

Intangible fixed assets

Intangible fixed assets were recognised at the cost of acquisition, including directly attributable ancillary expenses. The related amounts were recognised net of amortisation, systematically calculated on the basis of the rates indicated below, taking their residual possibilities of use into account.

Start-up and expansion costs with long-term benefits were recognised under assets with the consent of the Board of Statutory Auditors and are amortised over a period of five years.
Industrial patent rights and intellectual property rights, licenses, concessions and trademarks were amortised with an annual rate of 33% for assets with an estimated useful life of three years, and with a rate of 20% for assets with an estimated useful life of five years.

Improvements to third-party assets are amortised according to rates that depend on the duration of the contract.

Under the terms of point 5) of Art. 2426, we note that no dividends were distributed that exceeded available reserves able to cover the amount of the said non-amortised costs.

Fixed assets for which the value as of the reporting date was found to be permanently lower with respect to the value as determined above were recognised at this lower value. If the reasons for the write-down cease to exist in future years, it is not maintained, with the exception of goodwill.

Tangible fixed assets

Tangible fixed assets are recognised in the Financial Statements at the purchase cost. This cost includes ancillary expenses and directly attributable costs.
The related amounts are recognised net of depreciation, systematically calculated based on the rates indicated below, in relation to their residual possibility of use, taking into consideration the use, destination and economic/technical duration of the assets.

Description	Rate applied
Plant and machinery (office and electronic machines)	20%
Other assets	20%

No changes were made to depreciation rates with respect to the previous financial year.

Fixed assets for which the value as of the reporting date was found to be permanently lower with respect to the value as determined above were recognised at this lower value. If the reasons for the write-down cease to exist in future years, it is not maintained.

Financial fixed assets

Financial fixed assets consisting of equity investments in subsidiaries and associates were measured using the cost method, including ancillary charges. The book value is determined on the basis of the purchase or subscription price or the value attributed to the assets transferred.

The cost as determined above is reduced when lasting losses in value are determined. If the reasons for the adjustment made cease to exist, the value of the equity investment is restored up to the purchase cost.

The value determined in this way is not higher than the value that would be determined applying the criteria envisaged in Article 2426, point 4, of the Italian Civil Code.

Receivables

Receivables are recognised in the financial statements using the amortised cost criterion, on an accrual basis.

The measurement of receivables takes into account the estimated realisable value, through the allocation of a specific provision for impairment, to which an amount corresponding to the risk of not collecting the receivables recognised in the financial statements is allocated annually, in relation to general economic conditions and the related sector, as well as the origins of the debtor.

Cash and cash equivalents

This item includes cash and cash equivalents and monetary deposits in accounts the company holds with credit institutions, all expressed at their nominal value, duly converted into the national currency in the case of accounts in other currencies.

Accruals and deferrals

Accruals and deferrals are determined following the accruals concept. In relation to multi-year accruals and deferrals, the amount original recognised was verified and when necessary appropriate adjustments were made.

Provisions for risks and charges

Provisions are allocated to cover losses or liabilities of a determinate nature, which are certain or likely to exist, but for which at the end of the financial year the amount or date of payment cannot be determined. In measuring these provisions, the general criteria of prudence and accrual were observed, and no generic provisions for risks were established without an economic justification.

TFR (Employee Severance Indemnity)

The provision for TFR (employee severance indemnity) corresponds to the Company's effective commitment relative to each employee, determined in compliance with current legislation and in particular with the provisions of Article 2120 of the Italian Civil Code and the collective employment contracts and company annexes.

This liability is subject to revaluation based on indices.

Payables

Payables are recognised in the financial statements using the amortised cost criterion, on an accrual basis.

Derivatives

Fair value changes in derivatives are recognised in the income statement in section D) "Value adjustments of financial assets and liabilities", while fair value changes in the effective component of derivatives hedging financial flows recognised in shareholders' equity are recognised under the item *Reserve, hedging of expected cash flows*.

Recognition of revenues and costs

Revenues and income are recognised net of returns, discounts and rebates, as well as of taxes directly associated with the sale of products and provision of services.

Specifically:

- revenues for the provision of services are recognised on the basis of the actual provision and in accordance with the related contracts. revenues related to contract work in progress are recognised in proportion to the progress of the work;
- revenues from the sale of products are recognised at the time ownership is transferred, which normally corresponds with the delivery or shipping of the product;
- costs are recognised based on the accruals concept;
- allocations to provisions for risks and expenses are recognised based on their nature, when possible, in the appropriate class within the income statement;
- financial income and expenses are recognised on an accrual basis.

Inventories

Inventories of “Finished products and goods” made up of quantities of stored gas, are recorded at the lower of the cost of acquisition or manufacture and the realisable value taken from market trends, by applying the weighted average cost method.

Income tax

Income tax for the year is recognised in application of the accruals concept, determined by applying the current provisions under the law and based on an estimate of taxable income. The payable is recognised in the Balance Sheet under the item "tax payables", and the receivable under the item "tax credits".

With reference to the recognition of tax effects deriving from temporal differences between the recognition of economic components in the financial statements and the moment the same become fiscally relevant we note the following.

Deferred tax liabilities are calculated on the basis of temporary taxable differences, applying the tax rate that it is believed will be in effect at the moment said temporary differences generate increases in the taxable base.

Following the principle of prudence, deferred tax assets are calculated on temporary deductible differences, applying the tax rate that it is believed will be in effect at the moment said differences generate a decrease in the taxable amount, based on the principle of reasonable certainty that future taxable income will exist in an amount sufficient to reabsorb said changes.

The amount of deferred tax assets is reviewed every year to verify that the reasonable certainty of achieving future taxable income still exists in order to be able to recover the entire amount of deferred tax assets.

The amount of deferred tax liabilities and assets is also subject to redetermination in the case of a change in the tax rates originally used.

For corporation tax purposes (IRES), the Company having subscribed the previous year to the "national tax consolidation regimen" pursuant to arts. 117 to 129 of the Income Tax Consolidation Act (TUIR), together with the company Weedoo S.p.A., a company controlled for 51%, entails the calculation of a single taxable base for the group of companies subscribing to said regimen, and only the consolidating company is allocated the obligations relating to the calculation and payment of the Group's corporate income tax, as well as settling the balances and advance payments due for said tax.

The economic relations, together with the reciprocal responsibilities and obligations between the Company and the consolidated company, are set out in the tax consolidation contract for the Group's companies.

Based on the above, current corporate income tax was calculated on an accrual basis, based on the Company's year-end result, not taking into consideration the scope of the tax consolidation regimen, and charged to the latter's income statement. Regional business tax (IRAP) does not fall within the scope of the tax consolidation, and the effects of this tax have therefore only been stated in the Company's income statement according to the regulations that were originally in effect.

EXPLANATORY NOTES, ASSETS

Fixed assets

Intangible fixed assets

The structure of intangible fixed assets and changes during the year are highlighted in the table below.

Financial statement item	Initial balance	Increases	Decreases	Final balance
Concessions, licences, trademarks and similar rights	285,100	12,933	70,407	227,626
Fixed assets underway and deposits		19,000		19,000
Other intangible fixed assets	109,369	17,000	13,039	113,330
Totals	**394,469**	**48,933**	**83,446**	**359,956**

Intangible fixed assets at 31/12/2017 amounted to € 359,956 (€ 394,469 at the end of the previous financial year) net of amortisation.

This item includes start-up and expansion costs as well as licenses for software and management applications related to the creation of the ETRM (Energy Trading Risk Management) system, the invoicing system and Customer Relationship Management (CRM), as well as expenses to improve third-party assets.

Changes in intangible fixed assets

The following table indicates changes in intangible fixed assets (article 2427, paragraph 2, of the Italian Civil Code).

	Start-up and expansion costs	Concessions, licences, trademarks and similar rights	Intangible fixed assets underway and deposits	Other intangible fixed assets	Total intangible fixed assets
Value at start of year					
Cost	8,727	486,069	0	236,290	731,086
Revaluations	0	0	0	0	0
Amortisation (provision for amortisation)	8,727	194,279	0	126,471	329,477
Write-downs	0	6,690	0	450	7,140
Book value	0	285,100	0	109,369	394,469
Change during the year					
Increase due to acquisitions	0	12,933	19,000	17,000	48,933
Reclassifications (of book value)	0	0	0	0	0
Amortisation during the year	0	70,407	0	13,039	83,446
Total changes	0	(57,474)	19,000	3,961	(34,513)
Value at year end					
Cost	8,727	499,002	19,000	253,290	780,019
Amortisation (provision for amortisation)	8,727	264,686	0	139,510	412,923
Write-downs	0	6,690	0	450	7,140
Book value	0	227,626	19,000	113,330	359,956

Tangible fixed assets

The structure of tangible fixed assets and changes during the year are highlighted in the table below.

Financial statement item	Initial balance	Increases	Decreases	Final balance
Other assets	83,997	94,014	26,510	151,501
Total	**83,997**	**94,014**	**26,510**	**151,501**

Tangible fixed assets, net of depreciation, amounted to € 151,501 (€ 83,997 at the end of the previous year).

Changes in tangible fixed assets

The table below indicates the components that were included when determining the net book value in the financial statements (article 2427, paragraph 2, of the Italian Civil Code).

	Plant and machinery	Other tangible fixed assets	Total tangible fixed assets
Value at start of year			
Cost	1,700	208,007	209,707
Depreciation (provision for depreciation)	1,190	123,112	124,302
Write-downs	510	898	1,408
Book value	0	83,997	83,997
Change during the year			
Increase due to acquisitions	0	94,014	94,014
Depreciation during the year	0	26,510	26,510
Total changes	0	67,504	67,504
Value at year end			
Cost	1,700	302,021	303,721
Depreciation (provision for depreciation)	1,190	149,622	150,812
Write-downs	510	898	1,408
Book value	0	151,501	151,501

In the statement below, details are provided of the accounting item "Other assets", with an indication of the changes that occurred in the single components.

Description	Furniture and fittings	Electronic office machines	Assets other than the above	Total other fixed assets
Historical cost	26,448	149,115	32,444	208,007
Initial provision for depreciation	3,656	95,195	24,261	123,112
Write-downs in previous years		284	614	898
Balance at start of year	22,792	53,636	7,569	83,997
Acquisitions during the year	0	86,870	7,144	94,014
Depreciation during the year	5,006	16,589	4,915	26,510
Rounding				
Final balance	**17,786**	**123,917**	**9,798**	**151,501**

Financial fixed assets

The item financial fixed assets consists of equity investments, financial receivables, securities and derivatives as shown in the table below.

Financial statement items	Initial balance	Increases	Decreases	Final balance
Equity investments in:				
a) subsidiaries	1,711,566	306,000		2,017,566
Derivatives	179,037	57,267	- 179,037	57,267
Total	**1,890,603**	**363,267**	**- 179,037**	**2,074,833**

Below we provide information and detailed tables for the individual items.

Changes in equity investments, other securities and financial derivatives held for investment

Equity investments recognised in fixed assets represent lasting and strategic investments by the Company. Their total value at 31/12/2017 came to € 2,017,566 (€ 1,711,566 at the end of the previous year).

The table below indicates the components that were included when determining the net book value in the financial statements (article 2427, paragraph 2, of the Italian Civil Code).

	Equity investments in subsidiaries	Total equity investments	Other securities	Derivatives
Value at start of year				
Cost	1.711.566	1.711.566	0	179.037
Book value	1.711.566	1.711.566	0	179.037
Change during the year				
Increase due to acquisitions	306.000	306.000	0	0
Revaluations made during the year	0	0	0	57.267
Write-downs made during the year	0	0	0	179.037
Total changes	306.000	306.000	0	(121.770)
Value at year end				
Cost	2.017.566	2.017.566	0	57.267
Revaluations	0	0	0	0
Write-downs	0	0	0	0
Book value	2.017.566	2.017.566	0	57.267

The increase is due to a further capital payment for the benefit of the subsidiary Weedoo S.p.A. to cope with the financial commitments involved in managing the company's ordinary business.

Details on equity investments in subsidiaries

Equity investments in subsidiaries are measured at the purchase cost.

Pursuant to art. 2427, paragraph 5 of the Italian Civil Code, below we provide information on equity investments in subsidiaries, held directly or indirectly, and recognised under financial fixed assets.

Name	City, if in Italy, or foreign country	Tax ID no. (for Italian companies)	Share capital in Euro	Profit (loss) for the last year	Shareholders' equity in Euro	Stake held in Euro	Stake held as a %	Book value or corresponding receivable
Weedoo S.p.A.	Milan	8961560961	1,000,000	(795,477)	2,423,522	510,000	51.00%	2,017,566
Total								**2,017,566**

The data refer to 31/12/2016 – latest approved financial statements.
The company decided that it did not have to write down the value of the equity investment in Weedoo S.p.A., even though it is recognised in the accounts at a value higher than the related portion of shareholders' equity held, because the equity investment is a strategic and lasting investment for the Company.
The subsidiary Weedoo S.p.A. carried out an impairment test on its investment in SMG S.r.l. in order to determine the greater of the purchase price or the stake held in the shareholders' equity. The impairment test was carried out, discounting to the present (DCF Method) the expected future cash flows which will be generated by the subsidiary, as defined in the 2018-2022 development plan. From this assessment, there emerges a positive difference between the pertinent percentage of the value of SMG determined with the DCF Method and the book value of the equity investment in the Financial Statements.

Current assets

Inventories

Pursuant to art. 2427, paragraph 4 of the Italian Civil Code, below we provide a breakdown of the item in question.

	Value at start of year	Change during the year	Value at year end
Finished products and goods	17,597,470	10,381,961	27,979,431
Total inventories	**17,597,470**	**10,381,961**	**27,979,431**

Note that the criteria adopted to measure individual items led to the recognition of values that are not significantly different from the current costs of the assets determined as of the reporting date (article 2426, paragraph 10, Italian Civil Code).

Receivables recognised in current assets

Changes and maturity of receivables recognised in current assets

Below we note the structure, changes and maturity of receivables recognised in the current assets (article 2427, paragraphs 4 and 6, Italian Civil Code).

	Value at start of year	Change during the year	Value at year end	Portion due within the year	Portion due after 12 months	Of which with a residual duration exceeding 5 years
Receivables due from customers recognised in current assets	98,857,717	14,837,965	113,695,682	113,695,682	0	0
Receivables due from subsidiaries recognised in current assets	1,005,530	116,126	1,121,656	1,121,656	0	0
Receivables due from parent companies recognised in current assets	206,794	197,093	403,887	403,887	0	0
Tax credits recognised in current assets	2,081,113	(1,322,086)	759,027	759,027	0	0
Deferred tax assets recognised in current assets	71,823	425,445	497,268			
Receivables due from others recognised in current assets	1,028,211	167,817	1,196,028	1,196,028	0	0
Total receivables recognised in current assets	**103,251,188**	**14,422,360**	**117,673,548**	**117,176,280**	**0**	**0**

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The adjustment of receivables to their estimated realisable value is obtained by using specific provisions for impairment of receivables - determined through a valuation of the specific and generic risk of collectability - and by considering general economic and industry conditions.
The increase in receivables due from customers is due to an increase in turnover in 2017, compared to the same period of the previous year.
The items receivables due from parent companies of € 403,887 and receivables due from subsidiaries of € 1,121,656 include only trade receivables.
It must be specified that the item receivables due from subsidiaries includes both receivables from Weedoo S.p.A. and receivables from SMG S.r.l.; in the previous year receivables from the latter had been included among receivables due from customers; in this financial year the due reclassification was made also in the comparative financial statements as per the accounting formats (€ 989,097 in 2017 and € 855,832 in 2016).
The item Receivables due from others includes receivables for guarantee deposits in the amount of € 1 million given to Gestore dei Mercati Energetici S.p.A.
The item receivables for deferred tax assets, of € 497,268, refers to IRES [corporate income tax] and IRAP [regional business tax] credits, detailed below in these explanatory notes.
The item "Tax Credits" consists of VAT credits of € 510,722, credits for IRES and IRAP advances paid of € 245,793, credits for gas regional surcharges of € 2,257 and sundry credits of € 255.

Breakdown of receivables in current assets by geographical area

Receivables in current assets break down as follows based on the geographical area in which the debtor operates (Article 2427, paragraph 6, Italian Civil Code):

Geographic area	Italy	Europe	Rest of the world	Total
Receivables due from customers recognised in current assets	89,200,782	20,489,579	4,005,321	113,695,682
Receivables due from subsidiaries recognised in current assets	1,121,656			1,121,656
Receivables due from parent companies recognised in current assets	0	403,887		403,887
Tax credits recognised in current assets	759,027			759,027
Prepaid tax assets recognised in current assets	497,268			497,268
Receivables due from others recognised in current assets	1,037,028	159,000		1,196,028
Total receivables recognised in current assets	**92,615,761**	**21,052,466**	**4,005,321**	**117,673,549**

The adjustment of receivables to the estimated realisable value was achieved by means of specific provisions for impairment of receivables which during the year underwent the following changes:

Description	Opening balance	Utilisations	Provisions	Closing balance
Provision for impairment of receivables in current assets	1,193,741	1,179,947		13,794

The change indicated above is due to utilisations and releases of the provisions.

Financial assets not classified as fixed assets

Changes in financial assets not classified as fixed assets

Below is a table indicating the structure and changes in financial assets not classified as fixed assets (article 2427, paragraph 4, Italian Civil Code).

	Value at start of year	Change during the year	Value at year end
Derivatives not classified as fixed assets	349,951	(306,904)	43,047
Total financial assets not classified as fixed assets	**349,951**	**(306,904)**	**43,047**

Cash and cash equivalents

The balance as detailed below indicates the amount and changes in cash and cash equivalents existing at the end of the year (article 2427, paragraph 4, Italian Civil Code).

	Value at start of year	Change during the year	Value at year end
Bank and postal deposits	3,654,171	1,938,891	5,593,062
Cash and other cash equivalents	1,253	(620)	633
Total cash and cash equivalents	**3,655,424**	**1,938,271**	**5,593,695**

Accrued income and prepaid expenses

The structure and changes to the item in question are shown below (article 2427, paragraph 7, Italian Civil Code):

	Value at start of year	Change during the year	Value at year end
Accrued income	1,553	(1,553)	0
Prepaid expenses	158,330	15,049	173,379
Total accrued income and prepaid expenses	**159,883**	**13,496**	**173,379**

Description	Previous financial year	Current financial year	Change
Prepaid expenses:	158,330	173,379	15,049
- for rents paid and service charges	0	39,000	39,000
- for technical consulting	35,693	33,237	-2,456
- for sureties	49,272	37,284	-11,988
- for databases	45,314	27,589	-17,725
- for employee insurance	8,617	10,484	1,867
- for car leasing fees and other	19,434	25,785	6,351
Accrued income:	1,553		-1,553
- others	1,553		-1,553
Total	**159,883**	**173,379**	**13,496**

EXPLANATORY NOTES, LIABILITIES AND SHAREHOLDERS' EQUITY

Shareholders' equity

Changes in shareholders' equity items

Shareholders' equity, at the end of the year, amounted to € 11,238,023, showing the following changes (article 2427, paragraph 4, Italian Civil Code).

	Value at start of year	Allocation of profit for the previous year		Other changes			Profit for the year	Value at year end
		Attribution of dividends	Other allocations	Increases	Decreases	Re-classifications		
Share capital	5,000,000	0	0	0	0	0		5,000,000
Legal reserve	278,200	0	95,971	0	0	0		374,171
Other reserves								
Capital payments	925	0	0	0	0	0		925
Various other reserves	34,647	0	0	2	0	386,427		421,076
Total other reserves	35,572	0	0	2	0	386,427		422,001
Reserve, hedging of expected cash flows	457,142	0	0	57,267	70,715	(386,427)		57,267
Retained earnings (losses)	5,285,798	0	1,823,443	0	0	0		7,109,241
Profit (loss) for the year	1,919,414	0	(1,919,414)	0	0	0	(1,296,495)	(1,296,495)
Total shareholders' equity	**12,976,126**	**0**	**0**	**57,269**	**70,715**	**0**	**(1,296,495)**	**11,666,185**

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Availability and use of shareholders' equity

In particular, we provide details of the reserves which make up shareholders' equity, specifying their origins and nature, possibility of use and limits on distribution, as well as any utilisation during previous years (Article 2427, paragraph 7-bis, Italian Civil Code):

Key Origin/nature column: *C = Capital reserve; P = Profit reserve.*

	Amount	Origin/nature	Possibility of use	Portion available	Summary of utilisation in three previous financial years	
					to cover losses	for other reasons
Share capital	5,000,000			0	0	0
Legal reserve	374,171	U	B	374,171	0	0
Other reserves						
Capital payments	925	C	A,B,C,	925	0	0
Various other reserves	421,076	U	A,B,C	421,076	0	0
Total other reserves	422,001			0	0	0
Reserve, hedging of expected cash flows	57,267	U	A,B	57,267	0	0
Retained earnings	7,109,241	U	A,B,C,	7,109,241	0	0
Total	12,962,680			7,962,680	0	0
Non-distributable portion	431,438			431,438		
Remaining distributable portion				**7,531,242**		

Key: *A: for capital increase, B: to cover losses, C: for distribution to shareholders*
D: for other statutory requirements E: other

We can note that all non-hedging derivative contracts in being during the previous year were extinguished and, therefore, the related associated reserves of € 386,427 became available and relevant also for the purposes pursuant to arts 2412, 2433, 2442, 2446 and 2447 of the Italian Civil Code. These reserves were therefore reclassified from the Shareholders' Equity item "Reserve, for expected cash flow operations" to the item "Various other reserves".

At 31/12/2017, share capital was fully subscribed and paid up.

Provisions for risks and charges

The structure and changes in the individual items are shown in the table below (article 2427, paragraph 4, Italian Civil Code).

	Provisions for taxes, including deferred	Derivatives	Other provisions	Total provisions for risks and charges
Value at start of year	3,818	290,041	221,327	515,186
Change during the year				
Financial year provision	0	0	0	0
Utilisation for the year	0	0	0	0
Other changes	(2,717)	106,145	0	103,428
Total changes	(2,717)	106,145	0	103,428
Value at year end	**1,101**	**396,186**	**221,327**	**618,614**

Provisions for taxes include deferred tax liabilities of € 1,101. Details on provisions for deferred taxes can be found in the section of these Notes on exposure to the effects of deferred taxes.

The present table provides details on the item related to other provisions for risks and charges, as well as the changes occurring with respect to the previous financial year (article 2427, paragraph 7, Italian Civil Code).

Description	Previous financial year	Current financial year	Change
Provisions other than the above	221,327	221,327	0
Total	**221,327**	**221,327**	**0**

The provision for charges refers for € 221,327 to the allocation relevant to a contingent liability due to Stoccaggi Gas Italia (Stogit) related to an appeal, presented by Stogit, pending at the Regional Court of Lombardy for the annulment of AEEGSI resolution 144/2014/R/gas.

Employee severance indemnity

The provision allocated represents the actual amount owed by the company, as at 31/12/2017, to employees in the workforce at said date, net of advances paid.

The structure and use are both detailed in the table below (article 2427, paragraph 4, Italian Civil Code).

	Employee severance indemnity
Value at start of year	170,982
Change during the year	
Financial year provision	36,352
Other changes	14,678
Total changes	51,030
Value at year end	**222,012**

Payables

Changes in payables and maturity

The structure of payables, changes in individual items and breakdown by maturity are shown in the table below (article 2427, paragraph 4, Italian Civil Code).

	Value at start of year	Change during the year	Value at year end	Portion due within the year	Portion due after 12 months	Of which with a residual duration exceeding 5 years
Payables to banks	32,953,122	16,320,667	49,273,789	49,273,789	0	0
Trade payables	72,321,127	11,675,095	83,996,222	83,996,222	0	0
Payables to subsidiaries	335,974	(335,974)	0	0	0	0
Payables to Parent Companies	5,821,330	375,689	6,197,019	6,197,019	0	0
Tax payables	165,010	584,383	749,393	749,393	0	0
Payables due to pension and social-security agencies	86,797	(3,083)	83,714	83,714	0	0
Other payables	1,953,672	(754,748)	1,198,924	267,656	931,268	0
Total payables	**113,637,032**	**27,862,029**	**141,499,061**	**140,567,793**	**931,268**	**0**

Payables due to banks as at 31/12/2017, amounting to € 49,273,789 – maturing within one year – include loans for commercial transactions totalling € 35,368,398, and a documentary advance stated in the financial statements for € 13,905,391. The net financial position, instead, went from € 29,237,788 to € 44,033,233 following outgoings related to increasing the storage of natural gas compared to the previous year.

Trade payables of € 83,996,222 are recognised net of commercial discounts.

The nominal value of these payables was adjusted due to returns and rebates (billing adjustments), consistent with the amount defined with the counterparty.

The payable due to the parent company Centrex Energy & Gas AG is commercial.

The item "Tax payables" includes payables for duties of € 676,559 payables for with holding taxes for self-employed and employed staff of € 72,834.

The item "Other payables" consists mainly of the payable due to employees for € 1,169,811; the short-term portion refers to entitlements accrued within the year, and deferred salaries and holidays, while the portion beyond twelve months refers to entitlements due but for which the right to collect will mature in the following years.

Breakdown of payables by geographical area

We also provide an informational table on the breakdown of payables based on the geographical area in which the creditor operates.

Geographic area	Italy	Europe	Rest of the world	Total
Payables to banks	49,273,789			49,273,789
Trade payables	55,647,240	23,515,594	4,833,387	83,996,222
Payables due to parent companies	0	6,197,019		6,197,019
Tax payables	749,393			749,393
Payables due to pension and social-security agencies	83,714			83,714
Other payables	1,198,924			1,198,924
Payables	**106,953,060**	**29,712,613**	**4,833,387**	**141,499,061**

Accrued expenses and deferred income

Below is an indication of the breakdown and changes in the item in question (article 2427, paragraph 7, Italian Civil Code).

	Value at start of year	Change during the year	Value at year end
Accrued expenses	7,213	(7,213)	0
Deferred income	76,446	(32,928)	43,518
Total accrued expenses and deferred income	**83,659**	**(40,141)**	**43,518**

EXPLANATORY NOTES, INCOME STATEMENT

A) Value of production

Below we provide a breakdown of the value of production, as well as the changes seen in the individual items with respect to the previous year:

Description	Previous financial year	Current financial year	Change
Revenue from sales and services	607,510,834	845,811,373	238,300,539
Other revenue and income	146,793	1,137,580	990,787
Totals	**607,657,627**	**846,948,953**	**239,291,326**

The change in the item "other revenues and income" is mainly due to the release of provisions for the impairment of receivables.

Breakdown of revenue from sales and services by business sector

The breakdown of revenues by business sector is not significant.

Breakdown of revenue from sales and services by geographical area

The breakdown of revenues by geographical area is not significant.

Cost of production

The table below provides information on the structure and changes in the item "Cost of production".

Description	Previous financial year	Current financial year	Change
Raw materials, consumables and goods for resale	572,878,636	826,409,890	253,531,254
Services	22,963,810	28,888,103	5,924,293
Use of third-party assets	272,657	367,912	95,255
For personnel:			
a) wages and salaries	2,377,700	1,495,471	-882,229
b) social security contributions	516,979	406,970	-110,009
c) employee severance indemnity	110,351	36,352	-73,999
d) provisions for pensions and similar obligations	86,816	99,292	12,476
e) other costs	40,148	42,966	2,818
Amortisation, depreciation and write-downs:			
a) intangible fixed assets	87,383	83,447	-3,936
b) tangible fixed assets	27,127	26,510	-617
c) other write-downs of fixed assets			
d) write-downs on receivables in current assets	493,741		-493,741
Changes in raw materials, consumables and goods inventories	3,890,819	-10,381,961	-14,272,780
Other operating expenses	341,567	428,707	87,140
Rounding			
Total	**604,087,734**	**847,903,659**	**243,815,925**

Costs for raw and subsidiary materials, consumables and goods

They are strictly related to the information shown in the Report on Operations.

Costs for services

They are closely related, among others, to natural gas transport and storage services.

Personnel costs

The item includes all expenses for personnel, including therein merit pay increases, promotions, automatic cost-of-living increases, the cost of holidays accrued but not taken and legal provisions and collective contracts.

Amortisation/depreciation of intangible and tangible fixed assets

Amortisation and depreciation were calculated on the basis of the useful life of the asset and its use in the manufacturing stage.
Please refer to the information found in the relevant section in these Explanatory Notes.

Other operating expenses

The item includes, among others, costs for the uses of databases for € 92,937, insurance premiums on receivables for € 52,737 and contributions paid to the Authority for Electricity, Gas and Water for € 144,083.

Financial income and expense

In compliance with the provisions of point 12) of Article 2427 of the Italian Civil Code, we provide details on the amount of interest and other financial expenses related to payables due to banks and others, as well as details of other financial income.

	Current financial year	Previous financial year	Change
(Other income)	36,829	34,257	2,572
(Financial Income from closure in advance of futures contracts)	0	50,232	(50,232)
Total other financial income	**36,829**	**84,489**	**(47,660)**
Financial expenses	316,936	405,732	(88,796)
Financial Expenses from closure in advance of futures contracts	0	215,360	(215,360)
Total interest and other financial expenses	**316,936**	**621,092**	**(304,156)**
Exchange gains (losses)	7,170	168	7,002
Total	**-287,277**	**-536,771**	**(249,494)**

Other income for € 31,967 is related to default interest invoiced to customers for late payments and for € 4,862 to interest related to VAT rebates and bank interest.

Gross financial expenses came to € 316,936, down significantly relative to the previous year (€ 405,732).

The result of financial management in the strict sense confirms, again for the most recent financial year, careful credit management and the use of flexible financing appropriate for the business and always negotiated at the best possible market conditions.
Despite the increase in business turnover, the drop in Euribor listings also contributed to the decrease (as the final interest rate is associated with them).
Interest primarily included loans related to advances on invoices, documentary advances and financing for importing.

Value adjustments of financial assets and liabilities

The table below provides information on the structure and changes in the item "Value adjustments of financial assets and liabilities".

Description	Previous financial year	Change	Current financial year
Revaluations:			
d) of derivatives	332,125	-107,360	224,765
Write-downs:			
d) of derivatives	550,319	195,818	746,137
Total	**-218,194**	**-303,178**	**-521,372**

Derivatives entered into in relation to proprietary trading activity are measured at fair value - that is the price that would be received if an asset were sold or that would be paid to dispose of a liability in a regular transaction between market operators on the measurement date.
Pursuant to Article 2426, paragraph 4 of the Italian Civil Code, fair value is determined with reference to the market value, for financial instruments for which an active market can easily be identified. For prices of raw materials, there are observable market prices.
The observable market price is determined by referring to the bulletins published by recognised providers that provide information services to wholesale market participants.
The recognition in the financial statements reflects the typical (monthly) invoicing of sales and purchases on the HUBs. The mark to market is then recognised using the net-settlement method on a monthly basis.

Income taxes for the year: current, deferred and prepaid

Income taxes for the year

The breakdown of the financial statements item "Income taxes for the year" is provided in the table below:

Description	Previous financial year	Current financial year	Change
Current taxes	895.027		-895.027
Income for lower direct taxes in previous years		-61.063	61.063
Taxes related to previous years		22.365	22.365
Deferred taxes	8.614	5.304	-3.310
Prepaid taxes	-8.127	-433.466	-425.339
Total	**895.514**	**-466.860**	**-1.362.374**

Tax reconciliation - IRES

Below is a table with the information required under OIC 25 on reconciliation of the tax burden found in the financial statements and the theoretical tax burden.

Description	Value	Taxes
Pre-tax result	-1,763,355	
Theoretical tax burden %	24	-423,205
Temporary differences taxable in subsequent years:		
- interest income on arrears not received	4,288	
Total	**4,288**	
Temporary differences deductible in subsequent years:		
- statutory auditors' fees	10,140	
- independent auditors' fees	22,000	
Total	**32,140**	
Reversal of temporary differences from previous financial years:		
- default interest of previous years received	15,607	
Total	**15,607**	
Differences not carried forward into subsequent financial years:		
- car expenses	35,069	
- telephony expenses	14,135	
- fines and penalties	330	
- non-deductible costs	1,399	
- other increases	211,530	
- IRAP deduction		
- ACE (Italian Economic Growth Aid)		
- other decreases	41,224	
Total		
Taxable IRES	**-1,498,658**	
Current IRAP for the year		**-359,678**

Tax reconciliation - IRAP

Below is a table with the information required under OIC 25 on reconciliation of the tax burden found in the financial statements and the theoretical tax burden.

Description	Value	Taxes
IRAP taxable base (A - B + b9 + b10 lett. c) and d) + b12 + b13)	1,137,580	
Costs not relevant for IRAP purposes:		
- other items	63,571	
Revenues not relevant for IRAP purposes:		
- other items	83,428	
Total	**1,117,723**	
Theoretical tax burden %	3.9	4,333
Deductions:		
- INAIL	5,239	
- Social security contributions	537,299	
- other deductions	2,151,938	
Total deductions	**2,694,476**	
Taxable IRAP	**-**	
Current IRAP for the year		
Balancing of IRAP calculated - IRAP in the financial statements		

Deferred taxes

The net effect of deferred taxes on the income statement at 31/12/2017 entailed the recognition of revenue of € 428,161.
For information on the differences which resulted in the booking of deferred tax assets, and for the reconciliation of the values reported in the balance sheet, the following should be noted:

- deferred tax liabilities were calculated on the basis of the global allocation criterion, by taking into account the cumulative amount of all timing differences and on the basis of the rates expected to be in force at the time when these timing differences occur;
- deferred tax assets were booked given that there is a reasonable certainty of the existence – in the years in which the deductible timing differences occur, and against which the deferred tax assets were booked – of taxable income that is not less than the differences which will be cancelled; there are no timing differences for which the related deferred tax liabilities or assets were not recognised.

Explanatory notes, other information

Commitments, guarantees and contingent liabilities not found in the balance sheet

In compliance with the provisions of point 9 para. 1) of Article 2427 of the Italian Civil Code, the amount of guarantees given by the company, all of which are of a commercial nature, amounts to € 44,199,237.

Employment figures

In compliance with the provisions of point 15) of Article 2427 of the Italian Civil Code, below we provide information on the breakdown of employees as at 31/12/2017.

	Average number
Management	5
Office staff	19
Total employees	**24**

Fees, advances and loans granted to directors and statutory auditors and commitments undertaken on their account

The following table shows fees, advances, and loans granted to Directors and members of the Board of Statutory Auditors, as well as commitments undertaken on their account for the year to 31/12/2017, as required under point 16 of Article 2427 of the Italian Civil Code.

	Directors	Statutory Auditors
Fees	0	20,280

Fees to the independent auditor or auditing firm

Pursuant to Article 2427, point 16-bis, we provide details on the fees due to the independent auditor (or auditing firm) for services rendered, distinguishing between independent auditing services and other services.

	Value
Independent auditing of the annual accounts	44.000
Total fees due to the independent auditor or auditing firm	**44.000**

Information on transactions with related parties

Pursuant to article 2427, paragraph 22-bis, we note that during the year the Company had business relationships with:

- the parent company Centrex Europe Energy & Gas AG;
- the subsidiary Weedoo S.p.A.;
- the subsidiary SMG S.r.l.;
- the related party Gazprom Marketing & Trading Ltd;
- the related party Gruppo Società Gas Rimini S.p.A.;

referring to trade relations in the context of normal core business activities, relating to the purchase of raw materials and services, and regulated by normal market conditions.

Information on equity and loans destined for specific business

No assets were allocated to a specific area of business pursuant to Art. 2447-bis, paragraph 1, letter a) of the Italian Civil Code.

Information on companies preparing consolidated financial statements

The company holds a controlling stake in Weedoo S.p.A. and, under the terms of Art. 25 of Italian Law Decree 127/91, as amended by Italian Legislative Decree 139/2015 transposing Directive 34/2013/EU, would be obliged to prepare the consolidated financial statements of the Group; however as provided for in Articles 3 and 5 of the said Italian Legislative Decree 139/2015 it avails itself of the right not to prepare the consolidated financial statements as these are prepared by the company Centrex Europe Energy & Gas AG with registered office in Vienna - Austria. The reader is referred to these for more complete disclosure on the Group.
The Consolidated Financial Statements are available at the registered offices of the parent company Centrex Europe Energy & Gas AG.

Information on derivatives, pursuant to article 2427-bis of the Italian Civil Code

Below is the detailed information required in Article 2427-bis, paragraph 1, no. 1 of the Italian Civil Code. For each category of derivatives indicated in the table, we provide information about the significant terms and conditions which may influence the amount, maturities and certainty of future financial flows, and fundamental assumptions behind measurement models and techniques used when fair value is not determined on the basis of market evidence. Changes in fair value reserves occurring during the year are found in the table in the Shareholders' equity section. The derivatives indicated below fall within proprietary trading activities begun during 2015. The underlying contracts are standard contracts to purchase and sell natural gas.

Portfolio of Proprietary Trading Contracts	Change in SE year 2017	Change in SE years before 2016	Change in SE (to Non-profit Reserves)	Change in SE year 2017	Change in SE year 2016
Financial instruments not for hedging - year 2015		401.594	401.594		-401.594
Financial instruments not for hedging - year 2015		-21.719	-21.719		21.719
Financial Instruments for hedging - year 2015		6.552	6.552		-6.552
Financial instruments not for hedging - year 2016					310.406
Financial instruments not for hedging - year 2016					-142.173
Financial Instruments for hedging - year 2016			70.714		
Financial Instruments for hedging - year 2016			-70.714		
Financial Instruments not for hedging - year 2017				-746.137	
Financial Instruments not for hedging - year 2017				224.765	
Financial Instruments for hedging - year 2017	57.267		57.267		
Total	**57.267**	**386.427**	**443.694**	**-521.372**	**-218.194**

Significant events after the end of the year

No significant events occurred after the end of the year.

Proposal for allocation of profits or to cover losses

Allocation of profit (loss) for the year

Under the terms of Art. 2427 no. 22-septies, it is proposed to the shareholders' meeting to use the retained profit present in Shareholders' Equity to cover the loss for the year of € 1,296,495.

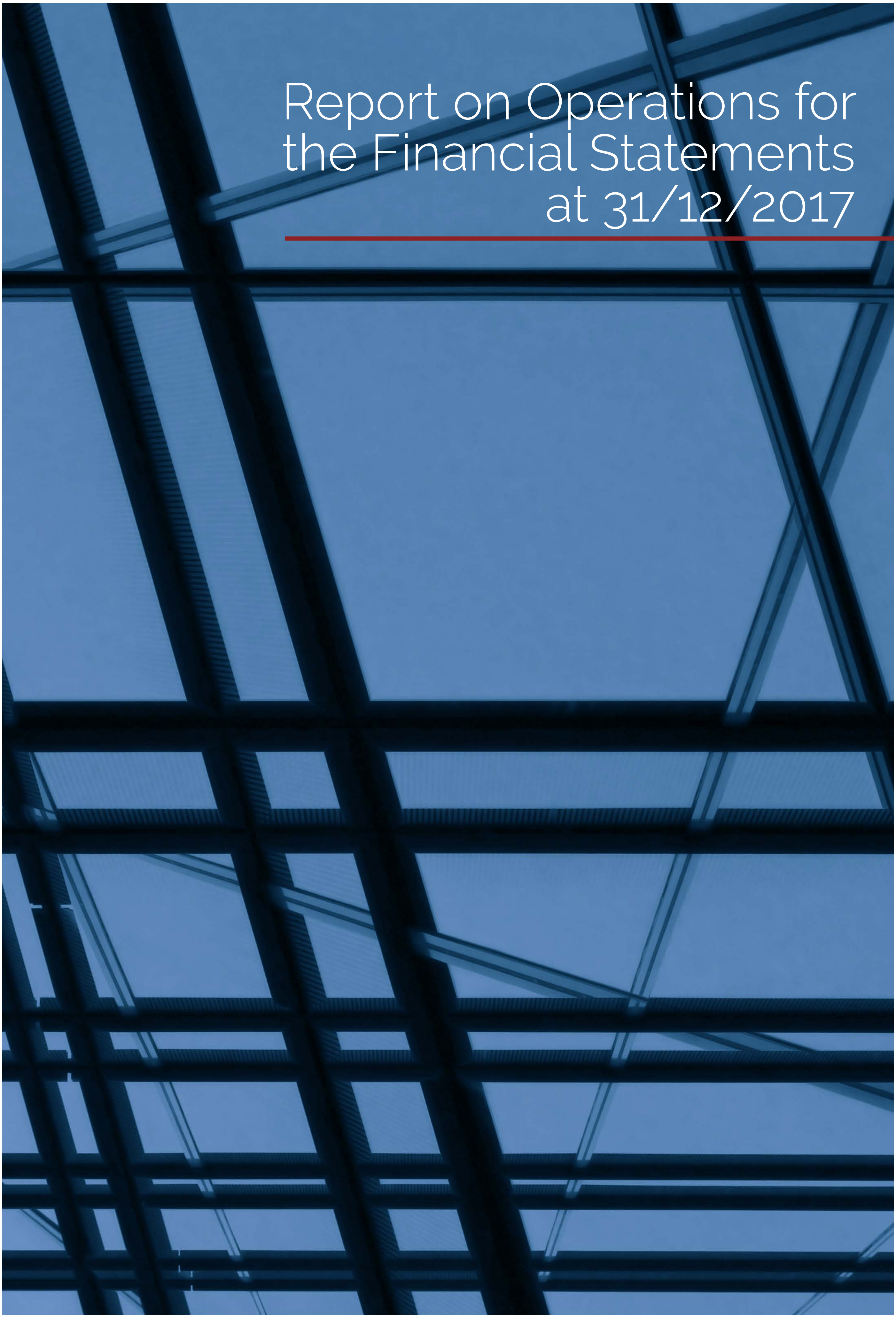
Declaration of compliance for the financial statements

Milan, 28 February 2018

For the Board of Directors
The Chief Executive Officer
Michele Libutti

The undersigned, MICHELE LIBUTTI, in his role as Director, aware of the criminal liabilities provided for in the case of false declarations, certifies, pursuant to Art. 47 of Italian Presidential Decree 445/2000, correspondence of the digital file in XBRL format, containing the Balance Sheet, Income Statement, Cash Flow Statement and these Explanatory Notes with what is filed in the Company's records.

Report on Operations for the Financial Statements at 31/12/2017



Dear Shareholders,

To accompany the annual financial statements for the period ended 31/12/2017 we are providing the present Report on Operations, prepared under the terms of Art. 2428 of the Italian Civil Code, with the objective of giving faithful, balanced and exhaustive information on the company's situation, the business performance and results, and on the activities carried out by the company in the year; information is also provided on the risks to which the company is exposed.

THE COMPANY'S BUSINESS

As you know, your company's purpose is the creation and use of energy and gas production plants, the strategic structuring of energy and gas supply contracts, as well as the creation of distribution structures, the sale and distribution of oil and natural gas products, and the purchase and sale of energy and natural gas.

Under the terms of Article 2428, the activity is carried out at the registered offices in Via Lorenzini 4, Milan, Italy and there are no secondary offices.

THE COMPANY'S SITUATION AND BUSINESS PERFORMANCE

The year ended with a loss of € 1,296,495

In the statements below we provide a summary of the financial situation and business performance during the year, highlighting the factors presented above:

Description	Previous financial year	Change	Current financial year
Net intangible fixed assets	394.470	-34.514	359.956
Net tangible fixed assets	83.997	67.504	151.501
Net financial fixed assets	1.890.603	184.230	2.074.833
Fixed assets	**2.369.070**	**217.220**	**2.586.290**
Inventories	17.597.470	10.381.961	27.979.431
Receivables from customers	98.857.717	14.837.965	113.695.682
Other receivables	4.393.471	-415.605	3.977.866
Accrued income and prepaid expenses	159.883	13.496	173.379
Short-term current assets	**121.008.540**	**24.817.818**	**145.826.358**
Trade payables	72.321.127	11.675.095	83.996.222
Tax and social security liabilities	251.807	581.300	833.107
Other payables	7.178.516	-713.841	6.464.675
Accrued expenses and deferred income	83.659	-40.141	43.518
Short-term current liabilities	**79.835.108**	**11.502.414**	**91.337.522**
Net working capital	**41.173.431**	**13.315.405**	**54.488.836**
TFR (Employee Severance Indemnity)	170.982	51.030	222.012
Other medium/long-term liabilities	1.157.605	-3.909	1.153.696
Medium/long-term liabilities	**1.328.588**	**47.120**	**1.375.708**
Invested capital	**42.213.913**	**13.485.505**	**55.699.418**
Shareholders' equity	-12.976.126	1.309.941	-11.666.185
Short-term NFP	-29.237.788	-14.795.445	-44.033.233
Equity and net financial debt	**-42.213.913**	**-13.485.505**	**-55.699.418**

Description	Previous financial year	Change	Current financial year
Subscribed capital, unpaid			
Fixed assets	2,369,069	217,221	2,586,290
Current assets	124,854,033	26,435,688	151,289,721
Accruals and deferrals	159,883	13,496	173,379
Total assets	**127,382,985**	**26,666,405**	**154,049,390**
Shareholders' equity:	12,976,126	-1,309,941	11,666,185
- of which profit (loss) for the period	1,919,414	-3,215,909	-1,296,495
Provisions for future risks and charges	515,186	103,428	618,614
TFR (Employee Severance Indemnity)	170,982	51,030	222,012
Short-term payables	112,704,572	27,863,221	140,567,793
Long-term payables	932,460	-1,192	931,268
Accruals and deferrals	83,659	-40,141	43,518
Total liabilities	**127,382,985**	**26,666,405**	**154,049,390**

Description	Previous financial year	% of revenue	Current financial year	% of revenue
Core business revenue	607.510.834		845.811.373	
Purchases and changes in inventories of raw and subsidiary materials, consumables and goods	576.769.455	94,94	816.027.929	96,48
Costs for services and use of third-party assets	23.236.467	3,82	29.256.015	3,46
Added value	**7.504.912**	**1,24**	**527.429**	**0,06**
Non-core business revenue	146.791	0,02	1.137.580	0,13
Cost of labour	3.131.994	0,52	2.081.051	0,25
Other operating costs	341.565	0,06	428.707	0,05
Gross operating profit	**4.178.144**	**0,69**	**-844.749**	**-0,1**
Amortisation, depreciation, write-downs and other provisions	608.251	0,1	109.957	0,01
Operating profit (loss)	**3.569.893**	**0,59**	**-954.706**	**-0,11**
Financial income and expense	-536.771	-0,09	-287.277	-0,03
Value adjustments of financial assets and liabilities	-218.194	-0,04	-521.372	-0,06
Profit (loss) before taxes	**2.814.928**	**0,46**	**-1.763.355**	**-0,21**
Income tax	895.514	0,15	-466.860	-0,06
Profit (loss) for the year	**1.919.414**	**0,32**	**-1.296.495**	**-0,15**

The following comments on various aspects of operations have been added to support the figures shown in the statements.

BUSINESS PERFORMANCE

Despite the increase in competition, in 2017, the Company generated sale volumes of 4,412 million cubic metres, compared to 3,314 million cubic metres in the previous year, marking an increase of 33%.

The final inventories of gas stored at Stogit S.p.A., as at 31 December 2017 totalled 142 million cubic metres compared to 87.8 million cubic metres in the previous year.

In 2017, profit margins decreased owing mainly to the effect of the icy weather in January and December 2017. In these circumstances, in order to cover the peak demand of its customers, the company was forced to purchase more natural gas on the market at higher than the sale price, although it held adequate levels in storage. In fact, in these contingencies, the spot price reflects the increase in demand owing to the intense cold and to the security rules that govern the use of reserves present in Italian storages. In practice, as they could not make further use of the storages, operators increased purchases on the spot market, causing an inevitable increase in demand and therefore in prices.

In particular, the added value, net of costs for services, reached € 0.5 million, while there was a gross operating loss of around € -0.8 million after discounting the operating and personnel costs.

Net income came to € -1,3 million after net financial expenses of € 0.28 million and income tax liabilities and assets of € 0.46 million.

For the financial year just ended, the result of financial operations, halved compared to 2016, confirms careful attention to financial optimisation and to limiting expense through the use of flexible financing appropriate for the business and always negotiated at the best possible market conditions. Despite the increase in turnover and in storage, the drop in Euribor rates also contributed to the decrease (as the final interest rate is linked to them). For more details on the result of financial management, please see the specific section in the Notes.

The seasonal nature of the activities carried out also influence the trend of the net financial position, in that billing cycles are not aligned between accounts receivable and accounts payable, and depend on the trends of gas volumes sold and purchased during the year. The company works to manage its liquidity requirements through short-term credit lines, mainly at variable rates. The company is in line with market standards as regards the ratio of current assets to amounts collected.

To better describe the Company's profitability, the table below shows a number of profitability ratios compared with the same ratios from the financial statements for the previous year.

Description	31/12/2017	31/12/2016
Net ROE	-0,11	0,15
Gross ROE	-0,15	0,22
ROI	-0,02	0,08

Net ROE is calculated as the quotient between net profit/(loss) and shareholders' equity.
Gross ROE is calculated as the quotient between profit/(loss) before taxes and shareholders' equity.
ROI is the quotient between operating profit/(loss) and average invested capital in the last two financial years.

General economic trend[1]

Consolidation of the international cycle

In 2017, the recovery of the international economic cycle strengthened in a context of expansion of world trade. The short-term prospects for the emerging economies are confirmed as favourable. However, the uncertainty about the future orientation of economic policies in the advanced areas and international geopolitical factors represent a risk for global growth.
In the United States, the expansive economic period is continuing, although slowing down slightly, driven by net exports, household consumer spending and, to a lesser extent, fixed investments. The labour market remained lively, and the unemployment rate improved further (+4.4% as an average for the year). The positive cyclical phase of the US economy is expected to consolidate in the coming months, with the Federal Reserve gradually normalising the monetary policy.
In the euro area in 2017, economic activity intensified recording higher rates than in 2016. Growth is boosted by domestic demand and, in this phase, also by the recovery of the capital accumulation process. This trend is also expected to continue towards the end of the year, determining, for the whole of 2017, GDP growth of 2,2%, which will probably be followed by a marginal slowdown in 2018. The good performance of the labour market (8.9% the unemployment rate in September) and low inflation continue to sustain the disposable income of households, favouring private consumption, which is likely to make a positive contribution to growth also in 2018.
In the year in progress, Germany is expected to record growth rates in line with the averages of the euro area, driven by a sharp recovery in the production capacity of plants, which is

1 Information of a general economic and sectoral nature is derived from the following publications:
- Economic Bulletin. Bank of Italy. 1 January 2018
- Forecasts. Prospects for the Italian economy. ISTAT. 21 November 2017
- GME Newsletter (*Gestore dei Mercati Energetici*, the Italian Power Exchange or IPEX) No. 111 of January 2018

likely to stimulate investments in machinery. Private consumption will benefit from the positive trends in the labour market characterised by increases in salary levels. France is expected to grow more moderately, driven by private investments stimulated by tax incentives to businesses implemented during the year by the new administration. Spain is showing a strong acceleration of growth boosted by net exports and by domestic demand: the labour market is recovering, characterised by much job creation, which drives private consumption.

For the euro area, the leading and coincident indicators of the economic cycle confirm the continuation of the positive orientation in the coming months. The climate of confidence is improving in all economic sectors. Inflation remains moderate, reflecting the low trend of underlying components and salary growth, still limited in many economies of the area. During 2017, the prices of the main industrial raw materials are expected to increase, although at different rates. The agreements between the United States and oil-producing countries and the strengthening of global demand are expected to push the prices of energy products upwards. The price of Brent is expected to increase compared to 2016 and is estimated to come out at US$ 53.6 per barrel. The increase in Brent is likely to continue at a slower rate in 2018 as well.

The exchange rate of the Euro against the dollar is confirming the upward trend (1.13 US$/€ on average during the year) boosted by the prospects for recovery of the economy in the euro area and by rising global demand. The European Central Bank is expected to maintain an accommodating monetary policy in the coming year as well. For 2018, no significant changes are expected in the exchange rate in the presence of a slowdown in the growth rates of world trade.

In the first eight months of the year, international trade was very lively, driven by the trading volumes of emerging countries.

Economic activity in the main advanced economies continued to expand in the third quarter of 2017; the short-term trend remained favourable in the last few months of the year. In the United States, the most recent data indicate strong growth. In the United Kingdom, private consumption is showing signs of recovery, and the leading indicators suggest for the last quarter of 2017 a growth rate in line with the average for the first three. In Japan, the most up-to-date short-term data indicate an acceleration of economic activity in the fourth quarter of last year.

In the emerging countries, the recovery in progress since the first half of 2017 is continuing. In China, growth remained stable in the last few months of the year, after exceeding expectations in the previous quarters.

In the summer months, GDP accelerated in India and Brazil.

In the third quarter of 2017, world trade grew at a rate of 3.5%, with a stronger trend of imports of the euro area and of the emerging countries of Asia other than China.

Inflation in the main advanced economies remains low. It is just over 2% in the United States, where, however, the trend in consumption (at 1.8%) remains two tenths of a percentage point below the Federal Reserve's target; it is fluctuating around 0.5% in Japan. The United Kingdom continues to be an exception, with price growth of 3%, in which the falling pound

is a factor. Inflation remains moderate in the main emerging economies.
According to the forecasts issued by the OECD in November, the GDP of the world economy is likely to grow by around 3.6% in 2017 and to rise slightly during the year in progress, to 3.7 %; the growth forecasts remained more or less unchanged compared to September. The economies of the advanced countries are thought to have contributed most to the acceleration of global product in the last two years.
Risks to the world economy remain associated with a possible increase of volatility in the financial markets related to a sudden intensification of geopolitical tensions, in particular with North Korea, and to uncertainty on economic policies, which could have a negative effect on the confidence of households and businesses. Despite reaching an agreement in the first stage of negotiations for the United Kingdom's exit from the European Union, uncertainty remains high about the configuration of relationships between the two economies. The outcome of the latest meeting of the signatory countries (United States, Canada and Mexico) of the North American Free Trade Agreement (NAFTA) for its revision makes the future of international commercial agreements less predictable. However, the effects of the tax reform in the United States approved this past 20 December (Tax Cuts And Jobs Act), which provides for reductions in tax rates for households and businesses, could be a stimulating factor for global growth. Since the end of September 2017 the increase in oil prices has continued, driven by the lively trend of global demand and by the success of the agreement on limiting supply among the main oil-producing countries; other factors have been the gradual re-absorption of global oil stocks and the outbreak of geopolitical tensions. In November the OPEC and Russia announced a further extension of the agreement to 2018. The rising prices recorded up to now have stimulated a new increase in US production from non-conventional sources, up this past November to record highs. The quotations of futures suggest that oil prices will fall slightly in the medium term.
As expected, at the meeting on 13 December 2017, the Federal Reserve increased the target range of interest rates on federal funds by 25 basis points to 1.25-1.50%. In October, the US Central Bank began reducing the budget according to the guidelines set out last summer. Based on quotes of federal funds futures, the markets seem to expect only two increases in 2018; however, the members of the Federal Open Market Committee foresee three. The Bank of England made its monetary policy more restrictive, taking the official rate back to 0.5%, after reducing it following the result of the Brexit referendum. In China, the Central Bank gradually tightened monetary conditions, favouring a further increase in interbank rates, and introduced new prudential measures in the banking and asset management segment.
In the euro area, growth continued at a high rate, driven above all by foreign demand. Inflation remains modest, reflecting the weakness of the underlying component. The monetary policy instrument recalibration decided by the Governing Council of the European Central Bank (ECB) has the aim of preserving very favourable loan conditions, which remain necessary for a lasting return of inflation to levels less than but close to 2%.
In the third quarter of 2017, the GDP of the euro area rose by 0.7% compared to the previous period, driven above all by net foreign demand and, to a lesser extent, by consumption.

Economic activity is thought to have continued to expand at a fast rate also in the fourth quarter. According to corporate purchasing managers' indexes, the expansion of activity was robust in manufacturing and services.

On the basis of the most recent forecast prepared in December by the experts of the Eurosystem, the product of the euro area should grow by 2.3% in 2018 (2.4 in 2017); compared to the previous estimate published in September, the projections were revised upwards by 0.4 percentage points.

In December, inflation came out at 1.4% and was 1.5% on average in 2017 (0.2% in 2016). The basic trend of prices remains low, also owing to sill moderate salary growth in many economies of the area. Net of the most volatile components, inflation in December came out at 0.9%, just under the average for the year (1.0%); the weakening that began in the autumn involved most euro area countries. In December, in some of the main countries, including Italy, France and Spain, core inflation remained lower than 1%.

In Italy, in a period of cyclical improvement of the economy, inflation is still low. The trend of consumer prices is slowing down (1.0% in October), reflecting prices falling back from the levels recorded at the beginning of the year in the most volatile components. Also contributing to this trend is a moderation in internal cost elements; core inflation, after a recovery in the first half of 2017, is not showing a significant and consolidated rise, coming out since the beginning of the year at annual rates lower than the total figure. Its main components show diverging long-term profiles with an upward trend in services.

In 2017, the deflator of household spending is expected to increase by 1.2%, in line with the current level of acquired inflation. This increase represents the first significant rise in the price trend, which has remained stationary over the last three years. As an annual average, the deflator of GDP (+0.6%) is expected to evolve with more moderation, influenced not only by the trend in domestic cost components but also by a slowdown in terms of trade.

Development of demand and trends in the markets in which the company operates

In 2017, the long-term downward trends observed since 2012 on oil prices were inverted, as they returned to just over US$ 54/bbl, an annual increase of 25%. The infra-annual analysis shows that the rising trend noted already toward the end of 2016 continued in January (US$ 55/bbl) before cooling off until June (annual minimum around US$ 46/bbl) and recovering strongly in the second half of the year, reaching in December the highest point since the end of 2014 (around US$ 65/bbl). The annual and infra-annual trend is similar also for the prices of oil derivatives, coming out in 2017 at us$ 301/MT for fuel oil (+47% on 2016) and at US$ 480/MT for diesel (+23%), and for coal, up to the highest level since 2013 (US$ 84/MT, +46%) in continuity with the rising trend observed already toward the end of 2016.
The exchange rate produced an imperceptible impact on the long-term changes in the above fuels, up slightly compared to the minimum of the two years 2015/2016. However, the annual trend conceals an infra-annual trend which saw stable and very low values in the early months of the year and subsequent continual growth attenuating only in part in the last quarter.
This generally upward trend led to the Euro rising to almost US$ 1.2, a figure reached in December and confirmed also by the expectations for the whole of 2018.

European market

Additionally, in the main European gas hubs, the prices have started to rise again. Although they increased by about 25%, they came out at figures which, in the last decade, are higher only than the minimums recorded in 2016. In particular, these figures can be seen at between the € 17.33/MWh of the TTF (+25%) and the almost € 20/MWh of the PSV (+26%), with a spread between the two rising prices of approximately € 1/MWh. The annual trends indistinctly characterised all hubs and all months of the year. With respect to the Italian reference, the levels reached in January and December stand out; in these the PSV reached respectively almost € 24/MWh and € 28/MWh in particularly critical conditions of the gas system. Particularly significant in this sense was 12 December when, following the accident that occurred at Baumgarten and the consequent reduction of imports from Tarvisio, the PSV reached a figure of € 75/MWh. The expectations for 2018 are also for a moderate increase, with expected price levels higher in the first quarter of the year.

Italian market

In 2017, natural gas consumption rose again (+6.4%) up to 74,686 million m^3 (790.4 TWh), consolidating the turnaround begun in 2015. Driving the growth above all was the consumption of the thermoelectric sector which, boosted by an increase in demand for electricity and a drop in hydroelectric renewable production, rose to the highest levels since 2012, of 25,410 million m^3. Industrial consumption was also at its highest of the last nine years, at 14,313 million m^3, which contributed to growth with +7.2%, showing signs of recovery after a long period of manufacturing crisis. The increase of civilian consumption was less (+3.5%); this was driven mainly by an increase recorded in January 2017, characterised by colder than average temperatures. There was an increase also in exports, to 2,281 million m^3 (+16.2%), which however remain modest, accounting for almost 3% of the total consumed, while contributions into the storage systems came down from the record high of the previous year to 11,009 million m^3 (-1.3%).

On the supply side, the increase in consumption seems to have been met mainly by imports of natural gas, which were again the most important means of procurement, coming out at 69,222 million m^3, just below the level of 2011 and up 7%.
Among the entry points, imports of natural gas coming from Russia to Tarvisio remain the main source, at 30.82 (+6.8%), followed by imports of Algerian gas to Mazara, stable in 2016 (18,880 million m^3, +0.3%). However, imports from Northern Europe are recovering (+8.1%), while those from Libya fell (-3.2%). There was strong and widespread annual growth in gas imported by LNG terminals, boosted by the peak shaving service and by the integrated regasification/storage service. Releases from storage broke the record for the second consecutive year, at 11,234 million m^3 (+2.5%), representing 13% of total gas introduced; the stock of stored gas on the last day of the year amounted to 8,487 million m^3, down compared to the same day of 2016 (-3.5%).
National production, finally fell to a record low of 5,239 million m^3, although it maintained a proportion of the total of more than 6%.
As regards prices, natural gas quotes at the national Virtual Exchange Point (Punto di Scambio Virtuale - PSV) reversed the downward trend of the last few years, rising to € 19.96/MWh and recording an increase of € 4.11/MWh from the lowest level of the previous year (+26%). In a European context in which the prices of the main hubs are following rising trends, the Italian one is still the highest, reducing the spread compared to 2016 with the price at the TTF to € 2.63/MWh

2017 is the first year of full operation of the markets managed by the GME (IPEX) in the new regulatory framework, launched in October 2016 and modified in April 2017, which redefined the new natural gas balancing system and the new design of the natural gas market (MGAS). Within the latter, to the day-ahead market (DAM-GAS), the intraday market (IM-GAS) and the futures market (FM-GAS), are added the market for negotiation of locational products (LPM) and the market for settlement of the quantities of gas moved from storage (SGM), up until 31 March 2017, organised in the context of the Gas Balancing Platform (BP-GAS).
In a context of recovery of consumption and within the new balancing system, the liquidity of the markets managed by the GME is growing; excluding from the analysis the BP-Gas, the volumes recorded on the spot markets and on the futures markets show significant increases, pushing them towards record highs. It is worth mentioning the IM-Gas transactions (23.8 TWh), which is the main trading platform (53% of the total), and, among the continual trading markets, the one used by SRG for its Balancing Manager functions. SGM follows with 16.6 TWh and, with much lower but still record quantities traded, DAM-Gas (3.3 TWh).
In terms of prices, slight annual increases were recorded on all markets, with levels that fluctuate between the € 19.26/MWh of SGM and the € 19.67/MWh of IM-Gas, all slightly

lower than the average PSV quote. The increase seems concentrated in the last two months of 2017 and is attributable to rising consumption in these months and to episodes recorded in December following the accident that occurred in Austria, all in a rising European context. After four years of inactivity, trading in the Royalties segment of the Gas Platform (P-GAS) finally resumed for 1.9 thousand MWh at an average price of € 18.45/MWh; if we consider only products for delivery in 2017, the volumes traded amounted to 1.1 thousand MWh.

Competitors' behaviour

In the last decade, the natural gas market has developed significant competition among operators, which will only become fiercer, thanks to further opening of markets upstream in the supply chain. It therefore appears plausible that the trend to redefine market prices in favour of stronger participants will become stronger, accompanied by an overall reduction in the number of operators.
In 2017, natural gas consumption in Italy, rising for the third consecutive year, confirmed the gradual recovery compared to the minimum figure reached in 2014, although its still remains at a lower level than nine years ago, when it began to fall. The performance of the industrial sector was positive, with consumption rising to the levels of 2008; the recovery of the civilian sector was more limited.
Despite the gradual rise in consumption, the market continues to present a now clear situation of oversupply, which creates significant competitive pressures. This situation creates difficulties especially for "Midstreamers", operators that operate mainly as wholesalers.

Main legislative references and most significant changes in the year of the financial statements

Balancing

- 66/2017/R/gas. The resolution approves the gas market management rules necessary for full implementation of the new balancing arrangement and approves the consolidated text (TICORG) containing provisions for regulatory conditions for performing physical gas market management activities.

Inventories

- 65/2017/R/gas. This provision sets the percentage gas quotas applied to users to cover the storage consumption for the thermal storage year 2017-2018.

- 76/2017/R/gas. This provision regulates the method for organising the auction procedures for awarding storage capacity for 2017/2018.

- 84/2017/R/gas. This provision regulates the method for calculating the reserve price for tender procedures for awarding storage capacity for 2017/2018 for the company Stogit. S.p.A. pursuant to Resolution 76/2017/R/gas.

Transport

- 776/2016/R/gas. This resolution approves the tariff proposals for the 2017 natural-gas transport and dispatch service.

Social, political and trade-union climate

In the summer months, household spending continued to increase, above all in durable goods, and the propensity to save stabilised. The further improvement of the climate of confidence among consumers can lead us to expect that consumption will continue to expand also in the autumn.

In the third quarter of 2017, the increase in household consumption continued (0.3% compared to the previous quarter); the growth regarded purchases of both goods, in particular durable ones, and services, which however slowed down compared to the previous period.

During the summer, the trend in consumption was partly due to the new increase in disposable income, which benefited from the conditions of the labour market. The propensity to save remained substantially stable at 8.0% in the third quarter.

The most recent quarterly information is in keeping with a continuation of expansion of consumption in the last quarter of 2017. After the high levels reached in the summer, in the autumn months, new registrations of motor vehicles fell by 2.1%; however, in the same period the climate of confidence among consumers rose again, above all in components related to the general economic situation and to future expectations. Labour market expectations also improved.

In the summer months, Italian household debt to disposable income fell to 61% (from 61.3 in June), a level well below the average of the eurozone (94.1% at the end of September). In ratio to GDP debt fell to 41.3% from 41.4 (57.9 in the eurozone). The proportion of expenses incurred to service debt (expenses for interest and repayment of principal) was about 10%. Interest rates on new loans continue to be set at minimum figures in the historical comparison.

During 2017, the growth of employment consolidated (+0.5% the short-term change in the third quarter according to the monthly data on the workforce). The input of work, measured in terms of worker units, thus confirms the positive trend recorded in the first half of the year reflecting the strong trend of employed workers. The current cyclical phase is characterised by a significant increase in the number of hours worked: in the second quarter of the year the quarterly increase of hours worked (+0.5%) was again more than that of worker units (+0.3%). The acceleration of GDP in the third quarter of 2017 contributed to improving the trend of work productivity compared to 2016 when the input of work grew at a faster rate (+1.4%) than that of product (+0.9%).

In the last few months, salary moderation continued; this is characterised by an increase in remuneration only slightly higher than that of employed worker units.

The short-term prospects confirm a positive trend in employment. In the third quarter, the vacancy rate, which measures the proportion of jobs for which the search for personnel is in progress, rose to the highest level of the last few years driven by the demand for personnel in construction and services (1.1 in both sectors). In October, expectations on the evolution of employment for the next three months also improved in the majority of production segments. In 2017, employment, expressed in terms of worker units, is expected to grow (+1.2%) while the unemployment rate declined a little (11.2%), remaining still far from the average for the euro area. The improvement of the labour market is estimated to extend also to 2018 with more limited intensity for employment (+0.7%) while the reduction of unemployment will continue (10.9%).

In 2017, remuneration per employee continued to show a moderate trend in line with that of 2016 (+0.6%). In 2018, an acceleration is expected (+1.1%).

Operating performance in the sectors in which the Company operates

Over the last few years, the main gas markets in which Centrex Italia operates have experienced an excess of supply. This has led to considerable pressure on sales margins, negatively conditioned also by high competitive pressure.

In the natural gas market, demand is still at limited levels, and the prospects for the sector remain quite uncertain, although over the year consumption recorded an increase compared to 2016.

Despite the slow recovery of the economic system, Centrex Italia confirmed its positive growth trend, increasing turnover and further strengthening its national and international position. Also in 2017, the Company increased the number of active counterparties in its commercial portfolio (+6% compared to the previous year, +19% compared to 2015). The company is always engaged in monitoring the achievement of its targets and in identifying new business areas within the strategic guidelines with the objective of optimising and anticipating value creation in an increasingly complex scenario.

The commitment to increasing loyalty in its commercial portfolio continues. In 2017, customers present for more than two years were more than 70% of the total. Particular attention to managing risk remains always fundamental.

The process of strengthening its organisational structure also continued, through addition of resources with high specific know-how to achieve greater operating efficiency and in order to explore new business opportunities. The company continued to invest in internal auditing and risk management systems, thanks also to use of information systems in support of the various business activities and processes.

INVESTMENT POLICY

The investments made during the year are summarised below:

Investments in intangible fixed assets	Acquisitions during the year
Authorizations, licenses, trademarks	12,933
Fixed assets underway and deposits	19,000
Other intangible fixed assets	17,000
Total	**48,933**

Investments in tangible fixed assets	Acquisitions during the year
Other assets	94.014
Total	**94.014**

Investments in financial fixed assets	Acquisitions during the year
Equity investments	306.000
Total	**306.000**

FINANCIAL ASPECTS OF OPERATIONS

The statement of Net Financial Position is provided below.

Description	Previous financial year	Change	Current financial year
a) Short-term assets			
Bank deposits	3.654.171	1.938.891	5.593.062
Cash and other cash equivalents	1.253	-620	633
Equities and bonds not classified as fixed assets			
Financial receivables within 12 months			
Other short-term assets	349.951	-306.904	43.047
Cash and cash equivalents and securities in current assets	**4.005.375**	**1.631.367**	**5.636.742**
b) Short-term liabilities			
Bonds and convertible bonds (within 12 months)			
Payables to banks (within 12 months)	32.953.122	16.320.667	49.273.789
Payables to other lenders (within 12 months)			
Other short-term liabilities	290.041		396.186
Short-term financial payables	**33.243.163**	**16.426.812**	**49.669.975**
Short-term net financial position	**-29.237.788**	**-14.795.445**	**-44.033.233**
c) Medium/long-term assets			
Financial receivables beyond 12 months			
Other non-trade receivables			
Total medium/long-term assets			
c) Medium/long-term liabilities			
Bonds and convertible bonds (beyond 12 months)			
Payables to banks (beyond 12 months)			
Payables due to other lenders (beyond 12 months)			
Other medium/long-term liabilities			
Total medium/long-term liabilities			
Medium/long-term net financial position			
Net financial position	**-29.237.788**	**-14.795.445**	**-44.033.233**

Compared to the previous financial year, the increase in the net financial position was mainly due to investments made to increase the storage of natural gas. The management and characteristics of working capital were substantially unchanged.

The tables below provide a reclassification of the Balance Sheet on the basis of cash uses and sources.

Uses	Amounts	% of uses
Immediate liquidity	5.593.695	3,63
Deferred liquidity	117.889.974	76,53
Available inventory	27.979.431	18,16
Total current assets	**151.463.100**	**98,32**
Intangible fixed assets	359.956	0,23
Tangible fixed assets	151.501	0,10
Financial fixed assets	2.074.833	1,35
Total current fixed assets	**2.586.290**	**1,68**
Total uses	**154.049.390**	**100,00**

Sources	Amounts	% of sources
Current liabilities	140.611.311	91,28
Consolidated liabilities	1.771.894	1,15
Total third party equity	**142.383.205**	**92,43**
Share capital	5.000.000	3,25
Reserves and retained profits (losses)	7.962.680	5,17
Profit (loss) for the year	-1.296.495	-0,84
Total own capital	**11.666.185**	**7,57**
Total sources	**154.049.390**	**100,00**

For a better description of the financial situation, the following table shows some financial statement ratios, compared with the same financial statement ratios in the previous year.

Description	31/12/2017	31/12/2016
Primary liquidity	0,88	0,96
Secondary liquidity	1,08	1,11
Debt	12,20	8,82

The primary liquidity index shows the ratio of current assets net of inventories (short-term current assets and cash and cash equivalents and securities in current assets) to current liabilities (Short-term current liabilities and short-term financial payables).

The secondary liquidity index shows the ratio of current assets (including therefore also inventories) to current liabilities.

The debt ratio is the quotient between third party funds and shareholders' equity.

To better describe the Company's capital solidity and financial balance, the table below shows certain financial ratios compared with the same ratios relating to the financial statements for the previous year.

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	31/12/2017	31/12/2016
Fixed asset/equity margin	9.079.895	10.607.056
Fixed assets/liabilities and equity margin	10.455.603	11.935.644

The fixed asset/equity margin shows the company's ability to cover investments in the fixed structure with own funds; it is calculated as the difference between own capital (shareholders' equity) and fixed assets (fixed capital).

The fixed assets/liabilities and equity margin indicates what proportion of durable investments is financed with financing sources with long maturities; it is calculated as the sum of own capital and long-term debt capital (Medium/long-term liabilities) net of fixed assets.

The indices and the reclassified balance sheet show that the Company's capital solidity - i.e. its ability to maintain financial equilibrium in the medium/long-term - has substantially remained unchanged. The increase in debt, and therefore in the net financial position, is a consequence of the greater financial investments made necessary by the increase in

storage and turnover compared to the previous financial year.
In general, during 2017, in Italy, the demand for bank loans from businesses, boosted by the recovery of investments, was still held back by the ample availability of internal resources and greater recourse to corporate bond issues. Credit quality continued to improve and the proportion of impaired loans fell further. Centrex Italia, in particular, continued the trend begun in the previous years of increasing its credit facilities and bank counterparties, managing to improve the pricing level further, also thanks to credit conditions which, as a whole, were favourable. The increase in financial partners and funds allows Centrex Italia to support growth, benefiting from economic opportunities and leverage.

INFORMATION ON THE ENVIRONMENT

No damage was caused to the environment during the year for which the company was found guilty. Our company was not given fines or definitive sentences for environmental crimes or damage during the year.

Environmental disputes

Currently the company has no civil or criminal disputes with third parties for damage caused to the environment or environmental crimes.

INFORMATION RELATED TO PERSONNEL

Safety

The company operates in all its environments in compliance with the provisions of Italian Legislative Decree 81/08 on the safety of workers.

The activity carried out in this field involves:
- training employees;
- carrying out regular medical check-ups;
- organising and training the action teams provided for in the law;
- continual corporate monitoring of the PPSM;
- preparing and distributing the documents of Italian Legislative Decree 81/08.

In particular, the following initiatives were taken during the year:
- updating of the corporate Risk Assessment Document;
- updating and preparation of procedures on the subject of health and safety in the workplace;
- training courses for new recruits.

None of the following occurred or were recorded during the year:
- workplace mortalities of personnel listed in the Company's employee register;
- serious workplace accidents that involved serious or very serious injuries to personnel listed in the Company's employee register.

No charges were recorded during the year regarding occupational illnesses involving employees or former employees or cases of mobbing, for which the Company was held to be definitively liable.

The company is particularly attentive to enhancing human resources, improving aspects of internal communication and continually making the organisation more efficient.

Injuries

No employees were injured during the year.

Disputes

Currently, the company has no disputes with employees or former employees of any kind.

DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES TO WHICH THE COMPANY IS EXPOSED

The Company operates in the natural gas supply sector and, consequently, the main categories of risk are linked to:
- the trend in the price of commodities and the demand for natural gas influenced by consumer consumption and temperatures (market risk);
- non-fulfilment of contractual obligations (credit/counterparty risk);
- inability to manage unforeseen negative cash balances (liquidity risk);
- inability to manage errors (operational risk).

In order to appropriately prevent problems connected with the inadequate management of risks, the Company makes an effort to incorporate risk management adequately into business processes; it constantly monitors its own global portfolio position and its cash flows over a broad time period of at least twelve months.

Market risk

The company is exposed to the risk of price fluctuation.
The company has no particular exposure in foreign currencies.
The Risk Policy governs the activities of managing and controlling this risk and provides for the adoption of specific risk limits in terms of economic capital and the use of hedging transactions in order to limit exposure within the limits set.
The activity of proprietary trading is permitted within the core business, observing specific procedures and segregated in advance in a separate portfolio. This activity is monitored

through stringent risk limits, observance of which is verified by the Risk Management Office, an office independent of the one that performs the operations.
The Risk Management Office has the objective of preventing or limiting the consequence of unforeseen results and of enabling the achievement of the strategic and operating targets.
In relation to climate risk, the Company avails itself of temperature forecasting systems in order to improve its consumption estimates.

Credit risk

With reference to the risk of contingent losses deriving from non-fulfilment of the obligations assumed by the various counterparties with which the Company operates, Centrex some time ago implemented procedures and instruments for assessing and selecting counterparties on the basis of their credit standing.
To supplement the use of external analyses provided by leading companies in the credit rating industry, the company has intensified the oversight of credit limits and the continual monitoring of exposure in relation to the various counterparties with particular attention to payment performance. .
Again in 2017, in support of its risk adverse approach, the Company continued to make use of a credit insurance contract, signed with a market leader, to protect itself against difficulties that could arise with its trading customers.

Liquidity risk

Liquidity risk is related to the possibility that the financial resources available to the company will not be sufficient to cope with the financial and commercial obligations in the terms and deadlines set.
Management of the corporate treasury, as regards forecasts and final figures, pursues the purpose of managing
cash flows in the present and short term in order to control and optimise use of cash and cash equivalents.
The Company has good credit capacity, with an adequate pricing level which allows it to make the best use of available financial resources.
As a consequence of the type of business it conducts, the Company has unfavourable collection times and has attempted, during the course of the year, to reduce this gap and improve current assets by decreasing the level of debt, whose peak is reached at the end of the year in conjunction with the end of the storage injection cycle.
The Company therefore continues to implement a careful commercial policy and prudent treasury management, even in the medium-long term, for the purposes of containing exposure and absorption of capital. However, given the reference business and the life cycle of the trade of natural gas, the financial exposure should still be considered as short term.

Operational risk

In order to limit the possibility of errors and to make company business efficient and effective, the Company – during the year – continually updated the processes which coordinate the primary activities implemented within the Company in order to make them increasingly consistent with the growth of operations and the increase in company size.

Policies related to the various hedging activities

In order to reduce to a minimum any possible exposure deriving from fluctuation in commodity prices, the Company takes a cautious approach to hedging its portfolio.
Transactions are carried out for the exclusive purpose of hedging with a neutral impact on the income statement result since the effects of hedging are the opposite of the results of the underlying physical contract.

RESEARCH & DEVELOPMENT ACTIVITIES

Pursuant to art. 2428, paragraph 2, point 1 of the Italian Civil Code, it is noted that in the Financial Year in question your Company did not perform research and development activities.

RELATIONS WITH SUBSIDIARIES, ASSOCIATES, PARENT COMPANIES AND SISTER COMPANIES

It should be noted that sole shareholder Centrex Europe Energy & Gas AG does not exercise management and coordination activities given that the Company has full decision-making, management and operational autonomy.

The Company carried out the following transactions during the year with subsidiaries, associates, parent companies and sister companies.

The Company carried out the following transactions with Group companies, all of strictly commercial nature. These transactions, which do not include atypical and/or unusual ones, are regulated by normal market conditions, i.e. conditions which would be applied between independent parties.

The table below provides a summary picture of transactions carried out during the year:

Related party	Payables		Receivables		Revenue	Costs
	Commercial	Financial	Commercial	Financial	Commercial	Commercial
Weedoo S.p.A.	-	-	132.560	-	196.359	
SMG S.r.l.	-	-	989.097	-	3.012.495	
Centrex Europe Energy & Gas AG	6.197.019	-	403.887	-	452.947	65.301.867
Gazprom Marketing & Trading Ltd	10.214.862	-	5.023.620	-	56.335.865	69.745.911
Total	**16.411.881**	**-**	**6.549.164**	**-**	**59.997.666**	**135.047.778**

TREASURY SHARES AND PARENT COMPANY SHARES/HOLDINGS

In accordance with the provisions of points 3) and 4), paragraph 2, Art. 2428 of the Italian Civil Code, we inform you that the company did not hold treasury shares or shares of the parent company during the year.

BUSINESS OUTLOOK

Centrex Italia, in line with the strategic plan approved by the shareholder, is continuing to work towards vertical integration, also through acquisitions, in all segments of the energy supply chain, as well as pursuing diversification through the implementation of new activities and services and expansion into strategic international markets. In particular, as regards diversification, it will be engaged in organising all the activities necessary to implement the power commodity which will be sold to traders/wholesalers, final customers and resellers. At the same time it is constantly engaged in completing and making the corporate organisation more efficient and refining internal processes and IT systems.

We thank you for your trust and invite you to approve the Financial Statements as presented.

Milan, 28 February 2018

The Chief Executive Officer
Michele Libutti

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