GROUP CONSOLIDATED FINANCIAL STATEMENTS AND SEPARATE FINANCIAL STATEMENTS FOR SARAS S.P.A. AS AT 31 DECEMBER 2017

SARAS

The Chairman, Gian Marco Moratti, passed away on 26 February 2018. As the son of the company's founder, he devoted the whole of his working life to the Saras Group, to which he was bound by a deep passion and tireless commitment.

With his sensitivity as a man and vision as an entrepreneur, he worked with his brother Massimo to make the Group grow and expand in a constantly evolving sector, eventually making it one of Europe's biggest oil refinery companies, that also operates in the electricity generation sector.

Even more than for the Group's important industrial achievements under his leadership, we want to remember him for the way he lived and worked. He combined honesty, unfailing commitment and consistency with a great humility and the ability to discuss matters openly and listen to other people's opinions, always with the ultimate desire for improvement. As well as inspiring our daily actions, these values guide our future goals and are his most important legacy.

All of us at Saras, who he loved so well, wish to express our sincere affection and eternal gratitude for having had the privilege of working with him to build such an important organisation.

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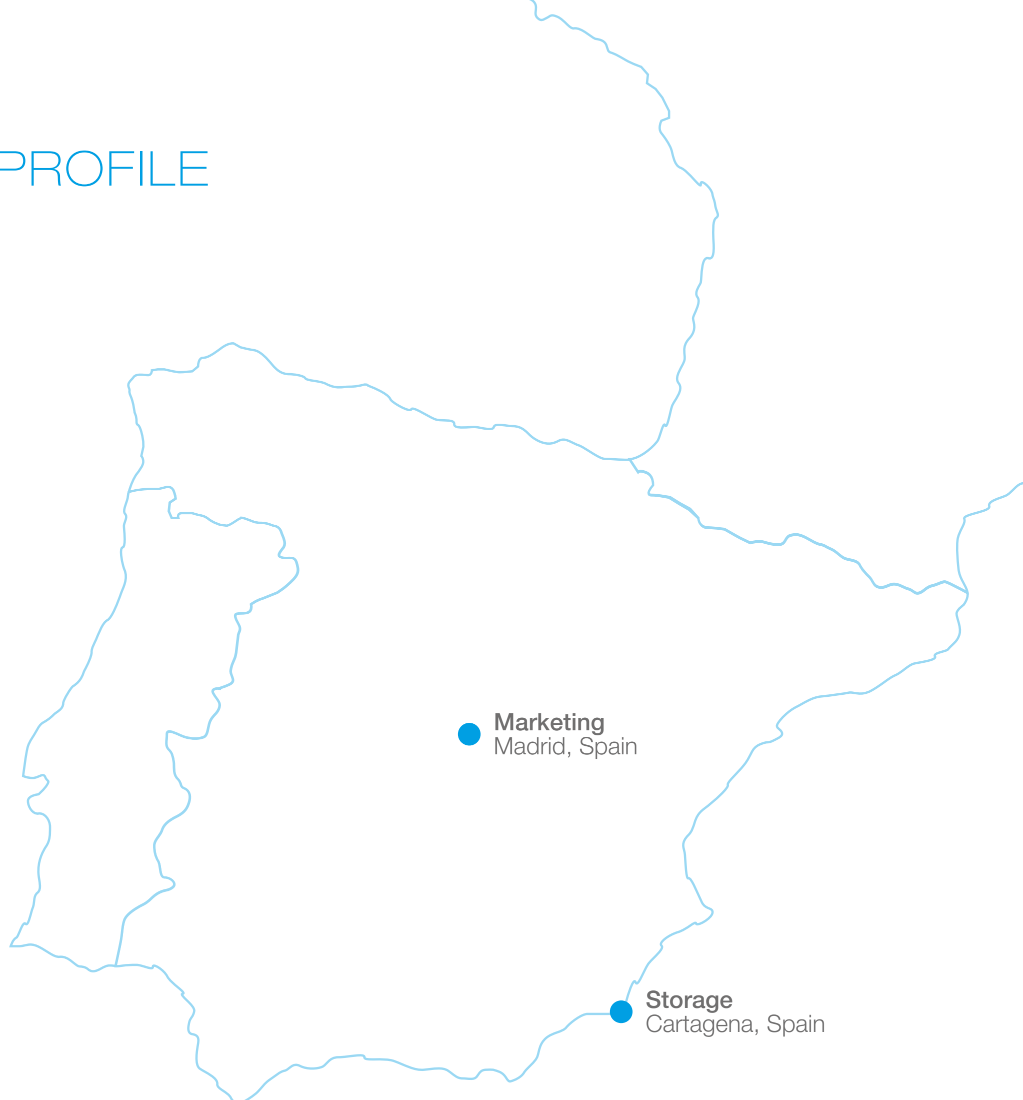
SARAS GROUP PROFILE



The Saras Group operates in the energy sector and is one of the leading independent oil refiners in Europe.

REFINING CAPACITY

300,000
barrels per day

The Saras Group operates in the energy sector and is one of the leading independent oil refiners in Europe. The Sarroch refinery, on the coast south-west of Cagliari, is one of the biggest in the Mediterranean in terms of production capacity (15 million tonnes per year, equal to 300,000 barrels per day) and one of the most advanced plants in terms of complexity (10.0 on the Nelson Index).

Located in a strategic position in the middle of the Mediterranean, the refinery is managed by the subsidiary Sarlux Srl, and is a reference model in terms of efficiency and environmental sustainability, due to its technological know-how, expertise and human resources acquired over fifty years of activity.

To best exploit these extraordinary resources, Saras has introduced a business model based on the integration of its supply chain through close coordination between refinery operations and commercial activities.

This context also includes the subsidiary Saras Trading SA, incorporated in Geneva in September 2015, which deals with acquiring crude and other raw materials for the Group's refinery, selling its refined products, and also performing trading activities, acting as one of the main markets for trading oil commodities.

Trading
Geneva, Switzerland

Headquarters
Milan, Italy

Storage
Arcola, Italy

Wind Farm
Ulassai, Italy

Industrial services
Assemini, Italy

Industrial site
Sarroch, Italy

OIL AND CRUDE PRODUCTS SOLD IN ITALY AND SPAIN THROUGH RETAIL AND WHOLESALE NETWORKS

3.65
million barrels

The Group sells and distributes oil products directly, and through its subsidiaries, such as diesel, gasoline, diesel fuel for heating, liquefied petroleum gas (LPG), virgin naphtha and aviation fuel, mainly on the Italian and Spanish markets, but also in various other European and non-European countries. In particular, in 2017 approximately 2.17 million tonnes of petroleum products were sold in Italy on the wholesale market, and a further 1.48 million tonnes were sold on the Spanish market through its subsidiary Saras Energia SAU, active both on the wholesale and retail market.

IGCC (INTEGRATED GASIFICATION COMBINED CYCLE) PLANT INTEGRATED WITH THE REFINERY

4,000,000,000
kWh/year

In the early 2000s, the Saras Group also undertook the task of producing and selling electricity by means of an IGCC plant (Integrated Gasification Combined Cycle), which has an installed power of 575 MW and is also managed by the subsidiary Sarlux Srl. The feedstock used by the IGCC plant is the heavy products of the refinery, and the plant generates over 4 billion kWh of electricity each year, which corresponds to more than 45% of the electricity requirements in Sardinia.

ULASSAI WIND FARM

96 MW
installed capacity

In addition, the Group manufactures and sells electricity from renewable sources in Sardinia, via the Ulassai wind farm. The farm, operational since 2005, is managed by the subsidiary Sardeolica Srl and has an installed capacity of 96 MW.

Lastly, the Group provides industrial engineering and research services to the petroleum, energy and environment industries, via its subsidiary Sartec Srl.

MILESTONES

The 1960s

Start of operations

1962
Saras is founded by Mr. Angelo Moratti.

1965
Sarroch refinery begins operations.

1968
Start-up of a new Crude Distillation Unit (Topping) and of the Fluid Catalytic Cracking plant (FCC).

The 1970s

Revamping plants

1970
Start-up of the Alkylation Unit (ALKY) and of a waste water treatment plant.

The 1980s

Increase in conversion capacity

1983
Start-up of the Visbreaking Unit (VSB) and of a Vacuum plant (Vacuum).

1984
Start-up of a new Reforming Catalytic unit (CCR).

Late 1980s
upgrading of the FCC Unit, with capacity increased up to 94,000 bl/day.

The 1990s

Environment, new technologies, and expansion into the wholesale market

1992
start-up of the first Mild HydroCracking Unit (MHC1).

Mid ’90s
Saras begins to operate in the wholesale market in Spain (Saras Energia) and Italy (Arcola Petrolifera).

The 2000s

IPO, new investments in high technology and the environment

The 2010s

Focus on safety, environment, efficiency and improvements in profitability

2001
Start-up of the Integrated Gasification Combined Cycle plant (IGCC).

Start-up of a second Mild HydroCracking Unit (MHC2).

Start-up of an Etherification Unit (TAME).

2005
the Ulassai wind farm starts operations, with an installed capacity of 72 MW.

2006
IPO to grow the business and explore new opportunities.

2007
increase in conversion capacity, leading to significant improvements in the production of automotive diesel.

2008
achievement of EMAS environmental registration (Eco Management Audit Scheme).

Start-up of the Tail Gas Treatment Unit and Sulphur recovery (TGTU).

Start-up of the gasoline desulphurisation unit (U800).

2009
Sales of gasoline and diesel with 10 ppm (parts per million) sulphur content begins. Significant reduction of indirect SO_2emissions.

Saras is the first refinery in Italy to obtain the AIA authorisation (Integrated Environmental Authorisation), which represents part of a journey to improve the technical and structural characteristics of the plant, in order to minimise the environmental impact of the production activities.

Extension of the retail network in the Southern areas of Spain, through the integration of 71 new service stations acquired from ERG.

During maintenance of plant MHC1, there was a tragic event in which three workers died.

Completion of an important cycle of maintenance and investments, critical for the future growth of the company, on the following Units: Topping 1, FCC, ALKY, TAME, MHC1, MHC2, and VSB.

2010
Start of the “Project Focus”, whose purpose is improving production efficiency, effectiveness of the operations, and cutting costs.

Saras becomes a certified member of the OCIMF (Oil Companies International Marine Forum), and it is now allowed to perform “vetting” operations within the SIRE Programme managed by OCIMF.

Bond issue on the Luxembourg Stock Exchange, restricted to institutional investors, with a total nominal amount of EUR 250 million and a maturity of 5 years.

2011
“Project Focus” achieves positive outcomes and is also extended to “Planning” and “Supply & Trading”.

The Group relies on its commercial and operational flexibility to overcome the shortage of Libyan crude oils, as a consequence of the civil war which devastates that country.

The ten-year shut-down for scheduled maintenance of the entire IGCC plant is performed.

The subsidiary “Sardeolica Srl” increases the installed capacity of the Ulassai wind farm from 72 to 96 MW.

2012
The Board of Directors of Saras approves the Group Business Plan 2013 – 2017, which is focused on activities aimed at improving effectiveness and efficiency, as well as pursuing new commercial opportunities.

In the Refining segment, MildHydroCracking-2 (MHC2) is revamped.

In a competitive environment, which becomes increasingly harder due to the recession in the Eurozone, the Saras Group continues to aim to be a leading operator in terms of safety and efficiency within its sector.

2013
The industrial strategy of the Group remains focused on striving to achieve operating performance excellence.

A major corporate reorganisation is completed, by transferring the business operations of the Refining segment of Saras SpA to the subsidiary Sarlux Srl.

At the end of April, Rosneft acquires 13.70% of the share capital of Saras SpA from majority shareholders, Gian Marco and Massimo Moratti, and, in mid-June, an

MILESTONES

The 2010s

Focus on safety, environment, efficiency and improvements in profitability

additional 7.29% via a public offer to purchase in the open market.

2014
The Saras Group pursues asset management initiatives aimed at cost reduction, increased energy efficiency and the coordination of its refining business activities and operational management.

Bond issue on the Austrian multilateral trading system, with a total nominal amount of EUR 175 million and a maturity of 5 years.

Important five-year turnaround activities are successfully carried out at the Fluid Catalytic Cracking plant (FCC), and its two main ancillary units: Alkylation (Alky) and Etherification (TAME).

Arcola Petrolifera Srl was merged into Saras SpA, with effect for accounting and tax purposes as of 1 January 2014.

On 29 December 2014, Sarlux Srl purchases a business unit of Versalis SpA, including approximately 80% of the production units of the Versalis petrochemical complex in Sarroch, Sardinia to achieve considerable industrial and organisational synergies, and further strengthen the international competitive landscape.

2015
2015 marks a structural change for oil markets: more balanced crude prices, greater availability of non-standard types of crude, recovery in consumption of petroleum products, streamlining of the European refining system, reduction of spare capacity at global level and correction of some market distortions, contribute to the recovery in refining margins, mostly benefiting complex refineries such as that of the Saras Group.

In order to take full advantage of the opportunities offered by the market, the Saras Group has adopted an innovative business model based on the integrated management of the supply chain (or of the raw material materials supply chain). This model is based on the characteristics of flexibility and high conversion of the Sarroch refinery, in addition to the close coordination of planning activities, trading and operational management of plants.

On 15 October, the Capital Markets Day of the Saras Group was held at the Sarroch refinery and the Business Plan 2016-2019, which is based on the optimal execution of the integrated Supply Chain management model and on a series of improvement initiatives related to reliability, energy efficiency and developments of the site configuration, with moderate investments and short re-entry periods, was presented at the event.

On 19 October, Rosneft sold about 8.99% of the share capital of Saras SpA to an expert group of institutional international investors, and reduced its shareholding to 12%.

On 10 December, Saras signed a five-year bank loan agreement, for an amount of EUR 265 million, to refinance existing debt.

2016
2016 was another positive year for the European refining industry, due to the continued abundance of crude oil, including non-conventional crudes whose processing favours complex, integrated and high conversion sites such as the Saras plant, and an increase in overall demand for refined products (+1.3 mb/d compared to 2015).

In January Saras Trading SA became fully operational in Geneva, one of the main markets for trading oil commodities. This company is a key element in the implementation of the integrated management of the Supply Chain model, it purchases raw materials and sells refined products from the refinery, and performs independent crude oil and petroleum product trading activities.

On 22 April, the Shareholders voted to distribute a dividend of EUR 0.17 for each share (corresponding to a dividend yield of 10.8%), totalling EUR 159.1 million. The return to the payment of a dividend after many years has been made possible by improved refining market conditions, and the excellent results in the year 2015.

The year 2016 saw the Saras Group engaged in a major process to reduce average debt costs, seizing the opportunities offered by the low interest rates resulting from the expansionary policies of the European Central Bank.
In detail, in September the Group completed the early repayment of the five-year bonds (total nominal value of EUR 175 million and a fixed annual coupon rate of 5%) and several credit lines were renegotiated in the last quarter.

2017

In 2017 the refining industry continued to benefit from favourable conditions characterised by satisfactory margins on the main refined products. Crude oil was well supplied, despite the implementation of cuts in production by OPEC countries ad other major producers (mainly Russia), although there was some pressure on discounts of heavy crude products, which were most affected by such production cuts. Overall demand for refined products continued to grow and increased by +1.5 mb/d compared to 2016.

On 17 January Rosneft placed all the shares in Saras SpA which it held, corresponding to 12% of the share capital of Saras, to a group of international investors.

The Business Plan for 2017-2020 was presented on 27 February. It pursues operational excellence by optimising costs, increasing energy efficiency and improving site configuration in order to maintain a position of leadership over the next decade, also thanks to the technological innovations offered by Industry 4.0.

On 20 April, the Shareholders voted to distribute a dividend of EUR 0.10 for each share (corresponding to a dividend yield of 4.6%), for a total of EUR 93.6 million. The Meeting also appointed Giovanni Moratti as director following the resignation of Andrey Nikolayevich Shishkin, and resolved to amend article 18 of the Articles of Association, which allowed a director to be selected from the list presented and voted on by shareholders individually representing at least 12% of the share capital, due to changes to the shareholding structure resulting from Rosneft's disposal of its stake.

The #digitalSaras program was launched during the year, for the purpose of defining and implementing the most appropriate technological innovations within the framework of Industry 4.0, with a view to further improving operating performance and efficiency. The first stage consisted in identifying the available technologies, after which 10 pilot projects were developed. Once their technical feasibility and benefits had been established, the project was extended across the entire organisation. The project fits seamlessly into all the Group's ongoing initiatives, emphasising and enhancing the reliability, efficiency and flexibility that have always been the Group's characteristic features, leveraging on the know-how of its people.

On 22 December the Company completed the private placement of bonds with a nominal value of EUR 200 million, maturing on 28 December 2022 and bearing a fixed annual coupon rate of 1.70%. The operation is a continuation of the financial optimisation process that started in 2016 and will extend the average duration of financial debt. The proceeds will be used to refinance part of the gross debt, even with a positive net financial position, in support of the investment plan.

LETTER TO SHAREHOLDERS

Dear Members and Shareholders,

It is extremely difficult for me to talk about the Group's results and its future without being able to share this task with my brother Gian Marco as always in the past. But his great passion for and dedication to this company must drive us all to do our best and continue on the path of growth and prosperity that he traced and, with much sacrifice and commitment, he contributed to achieving.

Saras reported solid performance in 2017, also thanks to favourable market conditions, with a substantial increase in net profit compared to the previous year. The net financial position was positive and stood at approximately EUR 90 million, even after the repayment of all debts in connection with previous supplies of crude, investments for over EUR 200 million and the distribution of dividends for EUR 94 million. The Group made significant improvements at industrial, commercial and financial levels during the year, laying the foundations for the sustainability of its results in the future.

2017 was a year characterised by favourable economic conditions: global growth continued, trade increased, interest rates and inflation remained low, in a context of political stability in Europe.

On oil markets, Brent increased and crack spreads of refined products achieved very satisfactory levels. This trend was mainly driven by robust and higher-than-expected growth in global demand. The crude oil supply remained well above demand despite production cuts by OPEC countries. This was due to the combined effect of higher volumes supplied by Libya and Nigeria, where the cuts did not apply, and the restart of production of non-conventional oils in the US. In terms of the types of crude available, we found the situation more challenging because the cuts in production had particularly significant repercussions on supplies of heavy crude with a high sulphur content, a type that we process efficiently. Our business model, focused on commercial and operational flexibility, also proved successful in such a complex and unpredictable context.

Experts expect the refining industry to continue to benefit from favourable conditions over the medium term, thanks to increased demand for refined products. The introduction of the "IMO Marpol VI" regulations on 1 January 2020, that will impose a drastic reduction of the sulphur content in marine engine emissions, will be an additional boost. This will result in a significant increase in diesel prices and a drop in prices of fuel oil and crude with a high sulphur content. High conversion plants will therefore see an increase in their refining margins, whereas smaller, less complex refineries will not be able to harness this opportunity.
In these circumstances, our site in Sarroch will derive significant benefit and the IGCC plant, a key element in our industrial system, perfectly integrated with the refinery, will be fully utilised even after 2021 in order to process heavy crudes very efficiently and profitably.

The 2018-2021 Business Plan confirms the commitment to the refinery sector and the will to maintain operational and technological excellence to ensure the sustainability of business over the next decade, which will be full of challenges but also of opportunities for those operators who are able to maintain a position of leadership.
With this in mind, the plan envisages EUR 800 million of investments focused on the maintenance of state-of-the-art plants. We are confident that the ongoing digitalisation plan will produce good results. The aim is to harness innovative technologies to enhance the know-how of our people, the efficiency and flexibility that have always characterised our activities.

The Group remains fully committed to compliance with environmental and occupational health and safety requirements. This is borne out, among other things, by our excellent results in terms of accident rates, which are markedly lower than the average for the industry as indicated from data collected at European level by Concawe. This is thanks to our efforts to promote a culture of safety at all levels, our continuous investment in training and the care taken by our people at all times.

In conclusion, with our highly experienced professionals, high-quality, state-of-the art plants and financial soundness, we are geared to face future challenges with confidence, certain that we will continue to create value for our stakeholders and for the community in which we operate.

Massimo Moratti
CHIEF EXECUTIVE OFFICER

REPORT ON OPERATIONS SARAS GROUP

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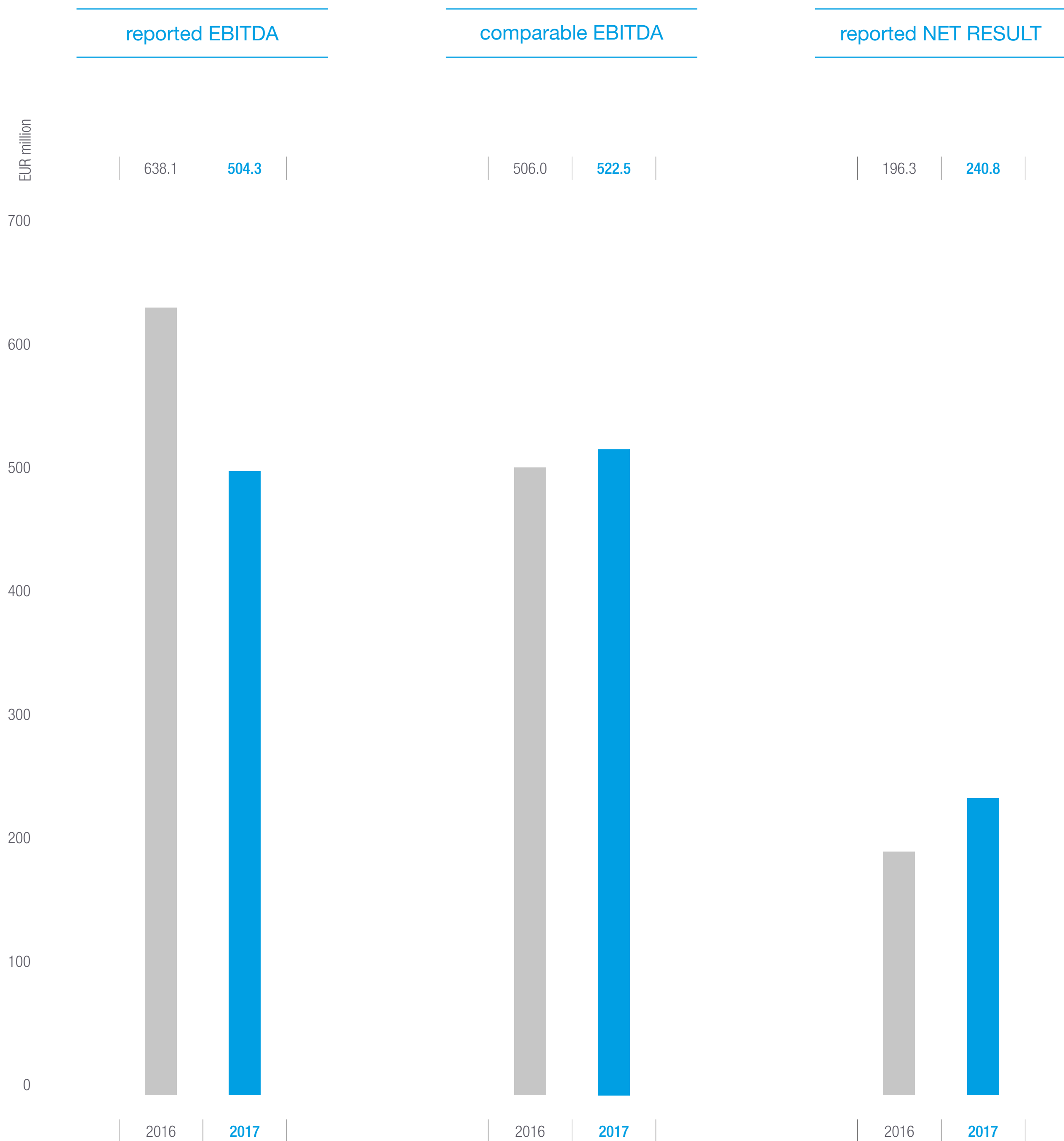
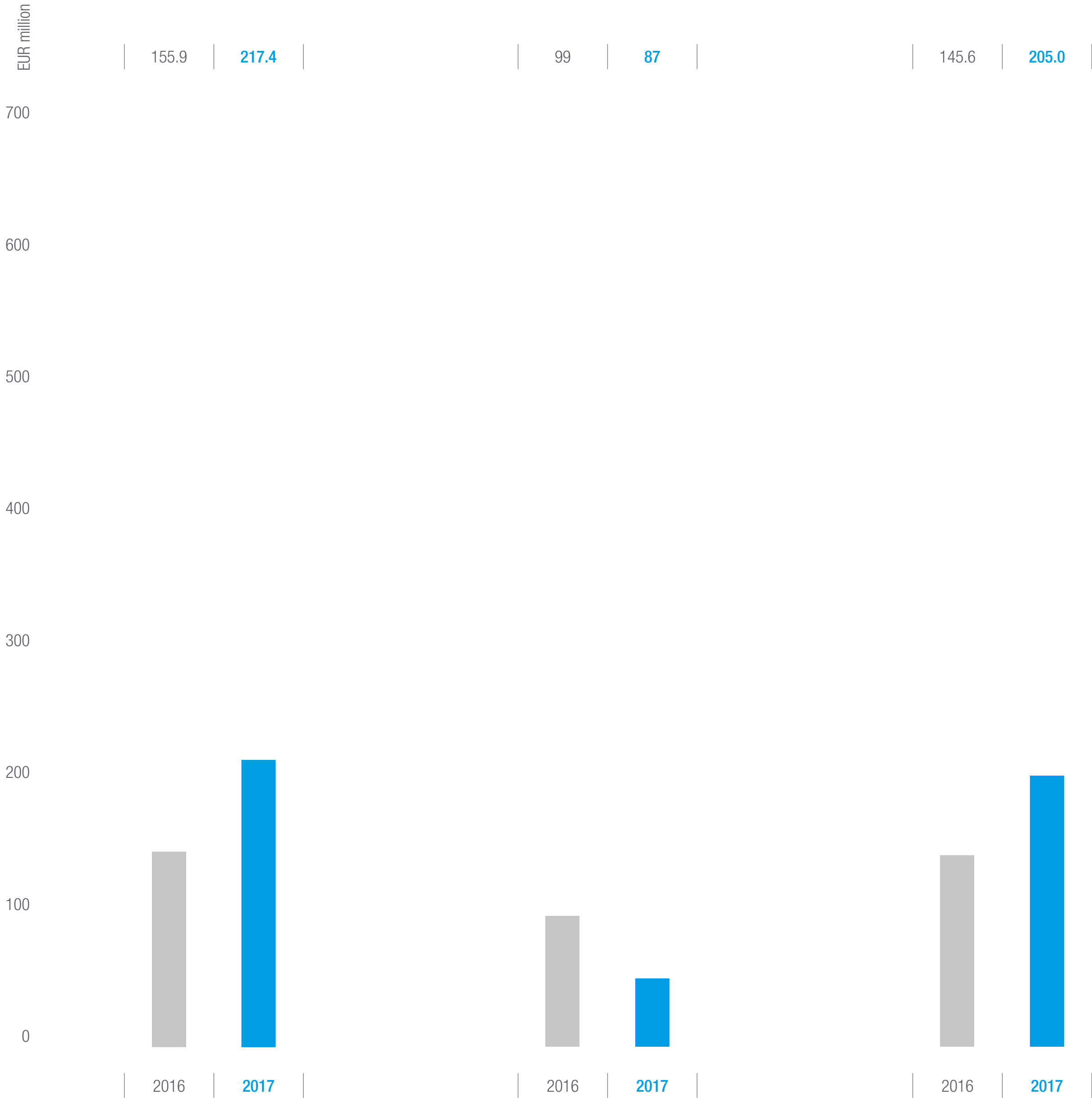
MAIN CONSOLIDATED FINANCIAL FIGURES




comparable NET RESULT
NET FINANCIAL POSITION
INVESTMENTS
EUR million
155.9
217.4
99
87
145.6
205.0
700
600
500
400
300
200
100
0
2016
2017
2016
2017
2016
2017

MAIN CONSOLIDATED FINANCIAL AND OPERATING FIGURES

EUR million		2017	2016	Change %
REVENUES		7,687	6,870	12%
EBITDA		504.3	638.1	-21%
Comparable EBITDA [1]		**522.5**	**506.0**	**3%**
EBIT		325.8	391.3	-17%
Comparable EBIT [1]		**344.0**	**279.3**	**23%**
NET RESULT		240.8	196.3	23%
Comparable NET RESULT[1]		**217.4**	**155.9**	**39%**
Shares outstanding, '000,000 (average no.)		936	935	
Comparable NET RESULT[1] per share (EUR)		**0.23**	**0.18**	
NET FINANCIAL POSITION		**87**	**99**	
CAPEX		**205.0**	**145.6**	
REFINERY RUNS	thousand tons	14,060	12,962	8%
	million barrels	102.6	94.6	8%
	thousand barrels/day	281	259	8%
FOREX	EUR/USD	1.130	1.107	2%
EMC BENCHMARK MARGIN	$/bl	3.5	2.9	
SARAS REFINING MARGIN (*)	$/bl	6.0	6.6	
IGCC ELECTRICITY PRODUCTION	GWh	4,085	4,588	-11%
POWER TARIFF	EURcent/KWh	8.7	8.1	7%
IGCC MARGIN	$/bl	3.3	3.3	0%
TOTAL MARKETING SALES	thousand tons	3,653	4,084	-11%
of which in Italy	thousand tons	2,169	2,298	-6%
of which in Spain	thousand tons	1,484	1,787	-17%

1. In order to give a representation of the Group's operating performance that best reflects the most recent market dynamics, in line with the standard practice in the oil industry, the operating results and the Net Result are determined using the FIFO methodology but excluding unrealised gains and losses on inventories due to changes in scenario, by evaluating inventories at the beginning of the year at the same unitary values as end-of-year inventories. Moreover, realised and unrealised differentials on oil and exchange rate hedge derivatives which involve the exchange of physical quantities are classified as operating results as they are related to the Group's industrial business operations, even if not accounted for using the hedge accounting principles. Derivative instruments relating to physical transactions not pertaining to the year under review and non-recurring items by nature, relevance or frequency are excluded from the operating results and the Net Result. The results thus calculated, referred to as "comparables", are indicators which are not defined by international accounting standards (IAS/IFRS) and are not subject to audit. Starting from the first half of 2017, changes have been made to the methods used to calculate "comparable" results. Therefore, to ensure comparability, the results for FY 2016 have been reclassified and compared against those calculated using the previous method.

(*) The refining margins for 2016 and 2017 refer to the comparable EBITDA for Refining calculated using the new method.

STATUTORY BODIES

BOARD OF DIRECTORS

MASSIMO MORATTI	CEO and Director
ANGELO MORATTI	Vice Chairman and Director
DARIO SCAFFARDI	Executive Vice Chairman, General Director and Director
ANGELOMARIO MORATTI	Chairman Saras Energia and Director
GABRIELE MORATTI	Director
GIOVANNI MORATTI	Director
GABRIELE PREVIATI	Director
GILBERTO CALLERA	Independent Director
ADRIANA CERRETELLI	Independent Director
LAURA FIDANZA	Independent Director
ISABELLE HARVIE-WATT	Independent Director

BOARD OF STATUTORY AUDITORS

GIANCARLA BRANDA	Chairman
GIOVANNI LUIGI CAMERA	Auditor
PAOLA SIMONELLI	Auditor
PINUCCIA MAZZA	Deputy Auditor

RESPONSIBLE OFFICER

FRANCO BALSAMO	Chief Financial Officer

AUDITING COMPANY

EY SpA

CORPORATE GOVERNANCE

The company complies with the Corporate Governance Code prepared by the Corporate Governance Committee and published by Borsa Italiana SpA in March 2006, as subsequently amended (the "Corporate Governance Code"), as described in the annual report on Corporate Governance (the "Report") approved by the Board of Directors (the "Board") and published within 21 days after the Meeting called for the approval of the 2017 financial statements.

The report, prepared in accordance with article 123-*bis*, first paragraph of Legislative Decree 58 of 24 February 1998 (the Consolidated Finance Act) and subsequent amendments, describes the main features of the corporate governance system of Saras, and how its various components function in practical terms, with a specific focus on compliance with the recommendations contained in the Corporate Governance Code.

The corporate organisation of Saras SpA complies with the Italian Civil Code and other laws on corporations, specifically those contained in the Consolidated Finance Act.

The Company is structured in accordance with the traditional model for administration and control, with a Board of Directors tasked with managing the Company. Within the Board, there is a “Remuneration and Nomination Committee”, an “Audit and Risks Committee”, whose functions also include those of the "Committee for Related-Party Transactions", and a “Board of Statutory Auditors”, whose tasks include monitoring compliance with legislation and with the Articles of Association, and controlling the adequacy of the Company’s organisational structure, internal audit system and administrative and accounting systems.

On 28 April 2015, the Shareholders' Meeting appointed the Board of Directors and the Board of Statutory Auditors currently in office, granting them a three-year mandate and entrusted the task of auditing its annual and consolidated financial statements for the financial years 2015-2023, as well as the task of limited auditing of half-yearly reports within the same period, to the audit firm EY S.p.A: (“EY”).

Since the Board of Directors and the Board of Statutory Auditors are nearing the end of their term of office, the Meeting convened to approve the Financial Statements as at 31 December 2017 will also be called upon to appoint the new directors and statutory auditors.

The Report provides details of the role and tasks of the Board of Directors, listing the functions that can and cannot be delegated, and providing up-to-date information on its composition and the meetings held in 2017 and in the first months of 2018.

Specifically, following the resignation of Andrey Nikolayevich Shishkin from the Board of Directors, the Shareholders' Meeting of 20 April 2017 appointed Giovanni Moratti to replace him. Mr. Moratti will remain in office until the Meeting that will be convened to approve the Financial Statements as at 31 December 2017.

The Board of Directors has appointed Gilberto Callera as the Lead Independent Director, the Remuneration and Appointments Committee (composed of Gilberto Callera, Laura Fidanza and Gabriele Previati) and the Control and Risk Committee, currently composed of non-executive independent directors, Gilberto Callera, Adriana Cerretelli, Laura Fidanza, Isabelle Harvie-Watt and Gabriele Previati.

Both Committees have the consultative and advisory functions, as intended in the Corporate Governance Code, and met regularly during 2017 and in the first few months of 2018, as illustrated in detail in the Report on Corporate Governance.

The Report also describes the Company's system of internal controls, for which the Board of Directors is responsible and which establishes the guidelines and periodically reviews the operational adequacy and effectiveness, using the Risk Management and Control Committee and the Internal Audit Department.

The Board appointed the Executive Vice President as the executive director responsible for overseeing the operations of the system of internal controls.

The Company has also appointed the Chief Financial Officer, Franco Balsamo, as the director in charge of financial reporting, according to Article 154-*bis* of the Consolidated Finance Act.

Since January 2006 the Company has had an "organisation, management and control model", updated on many occasions, in implementation of the legislation relating to the "Rules governing the administrative liability of companies pursuant to Legislative Decree 231/2001, which is overseen by a special supervisory body.

The Group’s Code of Ethics (approved by the Board of Directors of Saras SpA on 1 August 2016 and subsequently implemented by the Boards of Directors of other companies in the Group) is also part of the system of internal controls. It sets forth, in a single document, the common values and principles which underpin the action of the Saras Group and which must be observed by all employees, collaborators and all those who establish relations or relationships with the Group.

Lastly, the Report describes the contents of the internal rules for managing inside information and the creation of a list of persons with access to such information, as well as the Procedure on internal dealing, procedures for related party transactions, and the Code of Conduct for Saras Group Directors, as adopted by the Company’s Board of Directors.

1. Both documents have been integrated and updated in implementation of the rules contained in art. 17 of European Regulation No. 596 of 16/4/2014 on market abuse (and which has repealed Directive 2003/6/EC of the European Parliament and the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC) (the so-called "**MAR**"), as well as of the Implementing Regulation (EU) 2016/1055 of the European Commission of 29 June 2016.

REGULATORY FRAMEWORK

The most important regulations in 2017 relating to the energy, environment and health and safety at work sectors are as follows:

- Decree of the President of the Council of Ministers of 28 December 2017 on the approval of the sole environmental declaration form (MUD) for 2018;
- Law No. 205 of 27 December 2017 (the 2018 Budget Law) setting forth, inter alia, extensions on the matter of Sistri (the waste tracking and traceability system) and rules governing digital waste loading/unloading registers;
- Ministerial Decree issued by the Ministry of Economic Development on 21 December 2017 containing provisions on the reduction of tariffs to cover general system costs for energy-consuming enterprises;
- Law No. 167 of 20 November 2017, containing provisions on water, renewable energy and sanctions in the event of non-compliance with CLP regulations on the classification of substances and mixtures;
- Ministerial Decree issued by the Ministry of Economic Development on 10 November 2017 adopting the 2017 national energy strategy;
- Law No. 163 of 25 October 2017 containing legislative delegation for the transposition, inter alia, of directives on the subject of occupational health and safety, reduction of emissions of atmospheric pollutants;
- Decree of the President of the Council of Ministers of 10 October 2017 approving the programme of measures for achieving or maintaining good environmental status in the marine environment;
- Ministerial Decree issued by the Ministry of Economic Development on 9 august 2017 concerning the prospecting, research and development of offshore and onshore oil and gas sources;
- Law No. 124 of 4 August 2017, the annual market and competition law, with measures related to ferrous scrap metal, the construction industry, the energy and renewable energy market;
- Commission Regulation (EU) 2017/1510 concerning REACH and amending Annex XVII to Regulation (EC) No. 1907/2006 as regards CMR substances;
- Commission Regulation (EU) 2017/1000 concerning REACH and amending Annex XVII to regulation (EC) No. 1907/2006;
- Commission Regulation (EU) 2017/999 concerning REACH and amending Annex XVII to Regulation (EC) No. 1907/2006;
- Legislative Decree No. 104 of 16 June 2017 amending and supplementing Part II of Legislative Decree No. 152/2006 concerning environmental impact assessment;
- Commission Regulation (EU) 2017/776 on classification, labelling and packaging of substances and mixtures and amending Annex VI to the "CLP" Regulation;
- Commission Decision (EU) 2017/1471 to revise annual greenhouse emission allocations for the period from 2017 to 2020;
- Commission Implementing Decision (EU) 2017/1442 establishing best available techniques (BAT) conclusions for large combustion plants;
- Ministerial Decree No. 56 of 28 April 2017 regarding the integrated environmental authorisation permit and setting forth the criteria to consider when determining financial guarantee amounts;
- Legislative Decree No. 18 of 19 April 2017 containing supplementary provisions and amendments to Legislative Decree No. 50 of 18 April 2016 (Public procurement code);
- Decree issued by the Ministry of the Environment on 22 March 2017 containing provisions regarding the sulphur content of marine fuels;
- Legislative Decree No. 51 of 21 March 2017 regulating the quality of gasoline and diesel fuels and promoting the use of energy from renewable sources;
- Ministerial Decree No. 58 of 6 March 2017 on the application of tariffs for investigations and audits and the Commission's fees for carrying out investigations for the integrated environmental authorisation permit;
- Commission Regulation (EU) 2017/542 on classification, labelling and packaging (CLP) of substances and mixtures and amending Regulation (EC) No. 1272/2008;
- Council Decision (EU) 2017/770 and Council Decision (EU) 2017/769 on the ratification and accession to the Protocol of 2010 to the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea;
- Law No. 19 of 27 February 2017 converting Decree Law No. 244/216 establishing extensions on the matter of Sistri (the waste tracking and traceability system), thermal energy plants and occupational health and safety;
- Legislative Decree No. 42 of 17 February 2017 concerning provisions on the harmonisation of national laws on the subject of noise pollution;
- Legislative Decree No. 41 of 17 February 2017 on the harmonisation of national laws on the subject of noise pollution with Directive 2000/14 and Regulation (EC) No. 765/2008;
- Ministerial Decree issued by the Ministry of the Environment on 23 January 2017 setting out the equipment and stocks that must be present in storage sites on land, at drilling installations, on production platforms and on support vessels to respond to oil pollution at sea;
- Ministerial Decree issued by the Ministry of Economic Development on 11 January 2017 on Determination of the national quantity targets for energy saving for the years from 2017 to 2020 and for approval of the new Guidelines for the preparation, execution and assessment of energy efficiency projects.

EQUITY MARKET PERFORMANCE

2017 was a positive year for the world's equity markets, with all the main equity indices ending the year up on 2016.

In detail, the Athens stock exchange had the best performance, with the "ASE Large Cap" index gaining 20%. Close on its heels were the American "S&P 500" index and the Japanese "Nikkei 225" index, both of which recorded growth of around 19%.

The Milan Stock Exchange also performed well, with the "FTSE Mib" index closing the year up 13.6%. This was followed by the "Dax" index in Frankfurt and the French "CAC 40" index, which closed the year up by 12.5% and 9.3% respectively.

On the London Stock Exchange, the "FTSE 100 UK" index rose by 7.6%. The Spanish "IBEX 35" index closed the year up 7.4% and the "FTSE EuroFirst 300" composite index, which summarises the performance of 300 European companies with the highest capitalisation, grew by 7.1%.

The following graphs give a visual representation of changes in the afore-mentioned stock prices, using as a "base 100" reference share prices at 1 January 2017.

The main stock markets followed a bullish trend in 2017, with share prices showing limited volatility. The factors that contributed to this positive trend were the strengthening of global growth, in both emerging and advanced markets, increased trade, favourable financial conditions with low interest and inflation rates and greater political stability in Europe.

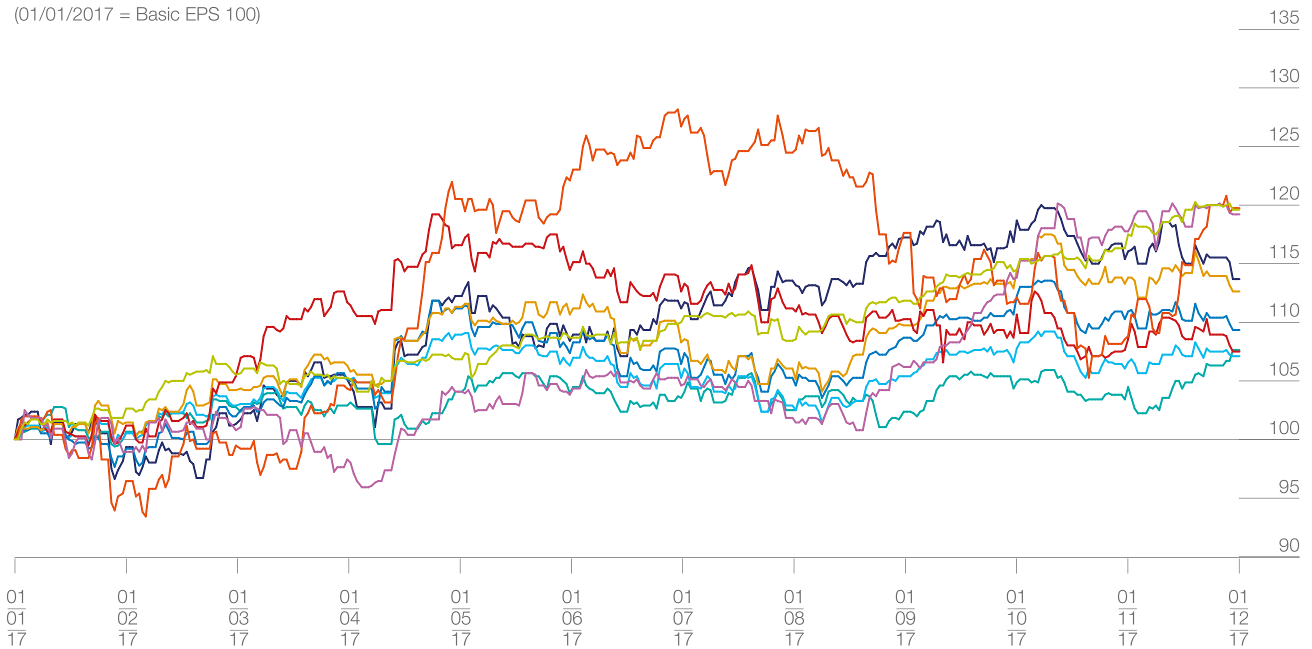
Having gathered momentum towards the end of 2016, stock prices continued to rise in the first quarter of 2017. American stock markets were buoyed in the first quarter by expectations of expansionary fiscal policies under the new federal administration. Although such measures did not materialise and the FED increased interest rates in March, the "S&P 500" index grew 5.5% compared to the beginning of the year, mainly driven by the technology sector, whereas energy stocks were held down by low crude oil prices. After a ranging market period at the beginning of the year, in February European stock markets began to follow a similar upward trend in the wake of better-than-expected economic data and a reduction in political risk given the results of the Dutch general election, which appeared to stem the tide of Euroscepticism.

The growth of global stock indices continued in the second quarter, with volatility remaining low. The "S&P 500" index rose despite economic performance being not altogether satisfactory and growing uncertainty about whether the Trump administration would be able to implement the announced economic stimulus plan. The main European indices rose in the first part of the second quarter, on the back of encouraging macroeconomic data, surprisingly good business results and the election of Emmanuel Macron as the new President of France, a result that put the brakes on populism. In the last week of April the markets interpreted signs from the European Central Bank as indications that it might curb its expansionary policies, triggering a brief downturn, which was subsequently rapidly reabsorbed. Crude oil prices continued to fall as the cuts in production by OPEC and non-OPEC countries were offset by increased production by Libya and Nigeria and the resumption of shale oil production in the US. The euro appreciated against the dollar by more than 7%, mainly thanks to the brighter economic outlook in this area.

In the third quarter, US stock markets continued to rise, buoyed by accelerated economic growth and a weak dollar, and notwithstanding renewed geopolitical risk fuelled by tensions with North Korea. In general in the third quarter, cyclical and energy stocks posted stronger gains than other sectors, thanks also to the rise in oil prices triggered, among other things, by robust demand. The "FTSE Mib" stock exchange in Milan performed particularly well and rose by more than 10%, reflecting positive trends in many areas such as industrial production, commercial traffic and electricity consumption, which resulted in an increase in the year-on-year GDP growth estimate. In Europe, the focus continued to be on possible monetary policy tightening, which took the euro to its highest level of the year against the dollar.

The "S&P 500" index continued to grow in the fourth quarter and hit record highs, also thanks to the approval of the previously announced package of tax cuts. European markets remained substantially unchanged, with the exception of the "FTSE Mib", which ceded ground in the last quarter, also in view of the forthcoming general election in May 2018, the outcome of which was highly uncertain and could rekindle political risk in Europe. Nevertheless, the index closed the year up 13.6%, one of the best results in Europe.

MAIN WORLD MARKET INDICES (SOURCE: BLOOMBERG)



FTSE 100 UK Index: index of 100 stocks most representative of the UK market

Standard & Poor's 500 Index: index of 500 stocks most representative of the USA market chosen from all sectors of the economy

DAX Index: index of 100 stocks most representative of the German market

CAC 40 Index: index of 40 stocks most representative of the French market

NIKKEI 225 Index: index of 225 stocks most representative of the Japanese market

FTSE Euro First 300 Index: representative index of 300 European companies with the highest capitalisation

IBEX 35 Index: index of 35 stocks most representative of the Spanish market

ASE Large Cap Index: index of 25 stocks most representative of the Greek market

FTSE MIB Index: index of 40 stocks most representative of the Italian market

SARAS SHARE PERFORMANCE

SHARE PRICE (EUR)	2017
Minimum Price (07/02/2017) *	1.418
Maximum Price (01/11/2017) *	2.354
Average Price	1.961
Closing Price on 29/12/2017	2.004

* Minimum and maximum prices refer to official reference prices on the closing of each trading day.

DAILY TRADING VOLUMES	2017
Minimum volume in EUR m (22/12/2017)	1.4
Minimum volume in number of shares (m) (22/12/2017)	0.7
Maximum volume in EUR m (18/01/2017)	59.9
Maximum volume in number of shares (m) (18/01/2017)	38.0
Average volume in EUR m	7.7
Average volume in number of shares (m)	4.0

The tables show data on daily prices and volumes of Saras shares from 02 January 2017 to 31 December 2017.

At 29 December 2017, the market capitalisation was EUR 1,906 million and, on the same date, there were approximately 936 million shares outstanding. At the end of 2017 Saras SpA held in treasury 14,989,854 own shares, equal to 1.576% of share capital. For details on own shares held in treasury and on the share movements during the year, reference should be made to the Notes to the separate financial statements of Saras SpA.

The following graph shows a comparison between the daily price of Saras shares and the FTSE Italia Mid Cap Index of the Italian Stock Exchange in Milan.

Saras shares opened 2017 with a price of EUR 1.740 per share on 2 January, and remained relatively stable for the first days of the year. On 17 January Rosneft announced the sale of its remaining 12% stake in Saras. The shares were sold to a Group of institutional investors at a price of EUR 1.53 per share through an accelerated bookbuilding process.

The share price then gradually fell back until mid-February, reflecting, among other things, fears of a reduction in the supply of heavy crude oil following the production cuts implemented by OPEC countries and other major producers including Russia. The trend was then reversed and the price remained bullish throughout March, buoyed by a strong EMC Benchmark margin and presentation of the new Business Plan for 2017 – 2020, eventually exceeding the level recorded at the start of the year (+2.9% from the beginning of the year) as compared to the +15.9% recorded by the index of medium-capitalisation shares listed on the Borsa Italiana (the so-called "FTSE Italia Mid Cap"). The latter benefited from positive market fundamentals as well as the introduction, starting from January, of tax-exempt Individual Savings Plans for retail investors who invest in small and medium-sized listed Italian companies.

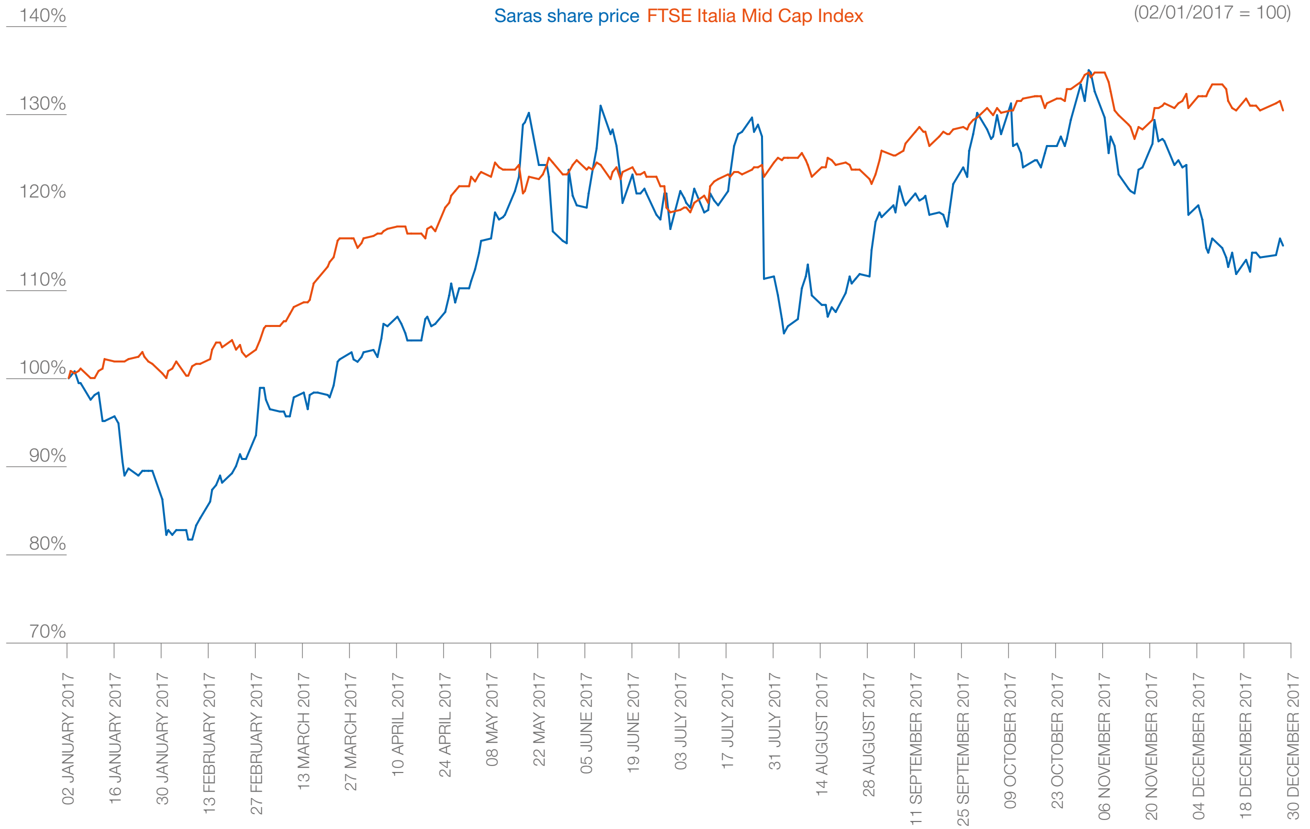
The share price recovered well in the second quarter, coming back on par with the FTSE Italia Mid Cap index, as Brent remained stable despite the cuts in production, the EMC Benchmark margin improved and the results for the first quarter were better than expected.

In July the share price rose again, almost reaching its highest level for the year, but then the results for the second quarter, published at the end of July, triggered a downward trend as refining margins fell below market expectations. Despite the favourable context, there were fewer opportunities to generate a premium for complex refineries, such as that managed by the Saras Group, owing to lower discounts on heavy crude and the strong crack spread of fuel oil which is especially advantageous for simpler refineries with high yields of that product. The trend was reversed in September and the share price bounced back as the crack spread of gasoline and diesel strengthened as a consequence of higher-than-expected growth in global demand and the hurricanes that devastated the coast of the Gulf of Mexico and temporarily knocked out about 20% of US refining capacity. The share price performed well in the third quarter, in line with the index of reference.

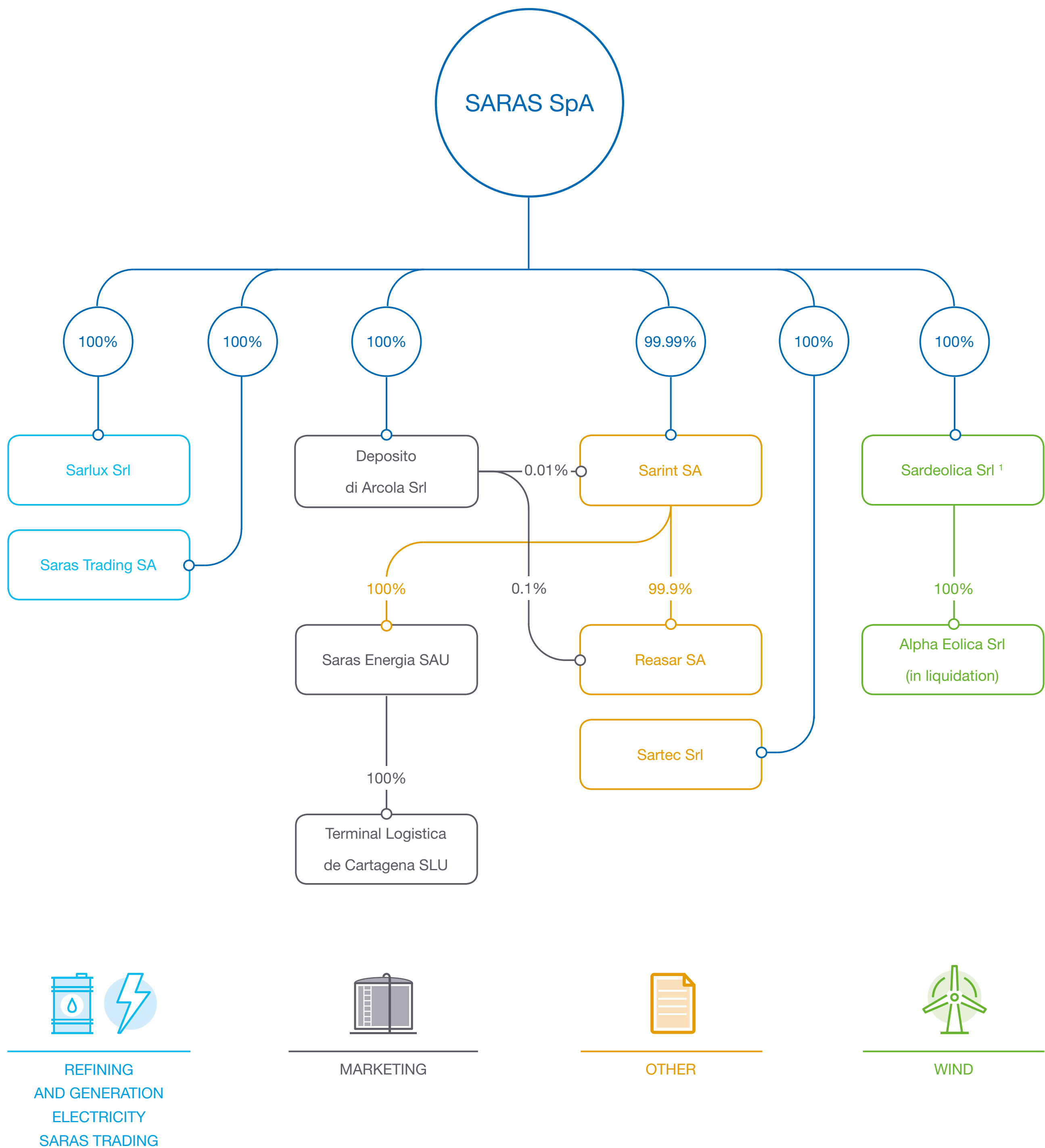
Brent surged in the last quarter, for a number of reasons including, most importantly, the announcement by OPEC and non-OPEC producers at the end of November that production cuts would continue throughout 2018, unscheduled maintenance work on the Forties Pipeline (which carries about 500 thousand barrels per day of crude oil from the North Sea to the UK) as well as geopolitical tensions in the Middle East. This hike in the price of crude oil was not accompanied by an equally rapid rise in prices of refined products and the crack spreads of the main products narrowed. This trend, and the strengthening of the euro against the dollar, which peaked in December, penalised the refining industry in general and Saras in particular.

Saras shares ended the year up 15% on the price at the start of the period, as compared to the FTSE Italia Mid Cap index, which rose by more than 30%.

SARAS VS.FTSE ITALIA MID CAP



STRUCTURE OF THE SARAS GROUP



The diagram shows the structure of the Saras Group and the leading companies for each sector of activity as at 31 December 2017.

1) The reverse merger of Parchi Eolici Ulassai Srl into Sardeolica Srl was completed on 4 October 2017 with the registration of the merger in the Milan Companies' Register, with effect for tax and accounting purposes as from 01/01/2017.

REGISTERED OFFICES OF THE CONSOLIDATED COMPANIES

Saras SpA
SS. Sulcitana 195, Km 19
09018 Sarroch – Cagliari

Sarlux Srl
SS. Sulcitana 195, Km 19
09018 Sarroch – Cagliari

Deposito di Arcola Srl
Via XXV Aprile 18
19021 ARCOLA – La Spezia

Sartec Srl
Grogastu
Traversa 2^ Strada Est
09032 Assemini – Cagliari

Consorzio la Spezia Utilities
Via Giovanni Minzoni, 2
19121 La Spezia

Sardeolica Srl
Strada Ovest – Zona Industriale Macchiareddu
09010 Uta – Cagliari

Saras Trading SA
Rue Philippe-Plantamour 18-20
1201 Geneve (Switzerland)
Switzerland

Sarint SA
12 Avenue de la Porte Neuve
2227 Luxembourg
Luxembourg

Reasar SA
31, Rue du Puits Romain
8070 Bertrange (Luxembourg)
Luxembourg

Saras Enegia SAU
Plaza Carlos Trias Bertan 4
Planta 2°
28020 Madrid
Spain

Terminal Logistica de Cartagena SLU
Plaza Carlos Trias Bertan 4
Planta 2°
28020 Madrid
Spain

Alpha Eolica Srl (in liquidation)
Bucaresti Ploiesti n. 69-71
Camera n. 22, Etaj 2
Bucarest
Romania

COMMENT ON SARAS GROUP RESULTS

Non-GAAP measure Alternative performance indicator

Key consolidated economic and financial figures are shown below in comparison with the data for the previous year. In order to give a representation of operating performance that best reflects the most recent market dynamics and in line with the standard practice in the oil industry, the operating results and the Net Result are displayed excluding gains and losses on inventories and non-recurring items and reclassifying derivatives. The results thus calculated, referred to as "comparables", are indicators which are not defined by international accounting standards (IAS/IFRS) and are not subject to audit.

Until 1Q2017 the "comparable" operating results and Net Result were reported evaluating inventories based on the LIFO methodology (rather than the FIFO methodology, which is adopted in financial statements prepared according to IFRS accounting principles). The LIFO methodology tends to sterilise the economic effects of changes in inventories and does not include end-of-period revaluations and write-downs. Furthermore, non-recurring items by nature, relevance and frequency were excluded, as well as the fair value of the open positions of derivatives on oil and exchange rates, both from the operating results and from the Net Result.

From 1H2017, in order to more analytically reflect such effects and align the calculation of "comparable" results to the sector best and more recent practices, the operating results and the Net Result are determined using the FIFO methodology but, unlike for the reported results, excluding unrealised gains and losses on inventories due to changes in scenario, by evaluating inventories at the beginning of the year at the same unitary values as end-of-year inventories. Moreover, realised and unrealised differentials on oil and exchange rate hedge derivatives which involve the exchange of physical quantities are classified as operating results as they are related to the Group's industrial business operations, even if not accounted for using the hedge accounting principles. Derivative instruments relating to physical transactions not pertaining to the year under review and non-recurring items by nature, relevance or frequency are excluded from the operating results and the Net Result.

Non-GAAP financial disclosures are provided in addition to information determined by applying the international accounting standards (IAS/IFRS) and must not be deemed to replace such information.

In order to permit comparison, the results for 2016 have been reclassified on the basis of the new criteria for calculation of "comparable" results and compared to those previously determined.

Comparable EBITDA

EUR million	2016	2016 reclassified
Reported EBITDA	**638.1**	**638.1**
LIFO inventories – FIFO inventories	(138.3)	
Profit made on derivatives and net exchange differences	(19.5)	
Gains / (losses) on inventories		(124.7)
Hedging derivatives and net exchange differences		(33.7)
Non-recurring items	26.2	26.2
Comparable EBITDA	**506.6**	**506.0**

COMPARABLENET RESULT

EUR million	2016	2016 reclassified
Reported NET RESULT	**196.3**	**196.3**
LIFO inventories – FIFO inventories net of tax	(95.3)	
Fair value open positions of derivatives net of tax	22.9	
Gains / (losses) on inventories net of tax		(85.9)
Derivatives relating to transactions non pertaining to the year		0.0
Non-recurring items after tax	45.5	45.5
Comparable NET RESULT	**169.4**	**155.9**

KEY GROUP FINANCIAL AND OPERATING RESULTS:

EUR million	2017	2016
REVENUES	**7,687**	**6,870**
EBITDA	504.3	638.1
Comparable EBITDA	**522.5**	**506.0**
EBIT	325.8	391.3
Comparable EBIT	**344.0**	**279.3**
NET RESULT	240.8	196.3
Comparable NET RESULT	**217.4**	**155.9**
NET FINANCIAL POSITION	**87**	**99**
CAPEX	**205.0**	**145.6**

Comments to Group 2017 results

Group revenues for 2017 totalled EUR 7,687 million. The difference compared to the EUR 6,870 million reported in 2016 is mainly due to the increase in average oil prices with respect to the previous year. More precisely, in 2017 gasoline prices averaged 548 $/ton (compared to 462 $/ton in 2016), diesel prices stood at an average of 491 $/ton (compared to 395 $/ton in 2016), and the average price of low-sulphur fuel oil was 315 $/ton (compared to 223 $/ton in 2016). As a consequence, the Refining segment increased its revenues by around EUR 650 million (also taking into account higher refinery runs) and the Marketing segment by approximately EUR 135 million. Revenues for the Electricity Generation segment were about EUR 30 million higher than in the previous year.

Reported Group EBITDA in 2017 was EUR 504.3 million,down on the EUR 638.1 million in 2016. This difference was almost entirely attributable to the Refining segment, which was positively influenced by the scenario effect on oil inventories, albeit to a lesser extent than in the previous year. The result also reflected an accrual prudently recognised in the first half in respect of a dispute concerning energy efficiency certificates.

The reported Group Net Result, equal to EUR 240.8 million, was significantly higher than the EUR 196.3 million reported in the previous year**.** The decrease at the EBITDA level was more than compensated for by other factors. In detail, charges for amortisation, depreciation and write-downs decreased in 2017 (EUR 178.4 million compared to EUR 246.7 million in 2016) following changes to the amortisation plan for the IGCC, in view of the extension of its useful life until 2031, instead of the previous time limit of 2021, to coincide with the expiry of the CIP6/92 contract, with an estimated impact of around EUR 48 million. There were no write-downs of tangible fixed assets, which amounted instead to around EUR 20 million in 2016. Net financial charges fell by 60% (to around EUR 12 million compared to EUR 30 million in 2016), due to the renegotiation of some credit lines and the early repayment of bonds carried out in 2016. Lastly, other financial items (which comprise realised and unrealised differentials on derivative instruments, net exchange rate differences and other financial income and charges) were positive for around EUR 18 million in 2017, whereas these items were negative for some EUR 53 million in 2016.

Comparable Group EBITDA amounted to EUR 522.5 million in 2017, up 3% compared to the EUR 506.0 million achieved in 2016. In detail, the Refining segment was substantially unchanged, as the increase in volumes produced offset the decrease in unitary margins and reduction in operating performance, while the Marketing segment reported increased profitability as a result of actions undertaken to increase efficiency. The **comparable Group Net Result for 2017 was EUR 217.4 million**, up 39% on the EUR 155.9 million in the previous year.

The tables below present the details of the calculation of comparable EBITDA and adjusted Net Result for the financial years 2016 and 2017.

DETAILS ON THE CALCULATION OF COMPARABLE EBITDA:

EUR million	2017	2016
Reported EBITDA	**504.3**	**638.2**
Gains / (losses) on inventories	(54.0)	(124.7)
Hedging derivatives and net exchange differences	48.3	(33.8)
Non-recurring items	23.8	26.2
Comparable EBITDA	**522.5**	**506.0**

In 2016, non-recurring items mainly refer to provisions for charges related to legal and tax disputes. In 2017, non-recurring items refer to an accrual prudently recognised in respect of the complaint by GSE over energy efficiency certificates (TEE) allocated and to be allocated to the Sarlux subsidiary, gains realised on the sale of energy efficiency certificates and a reclassification.

DETAILS ON THE CALCULATION OF THE COMPARABLE NET RESULT

EUR million	2017	2016
Reported NET RESULT	**240.8**	**196.3**
Gains / (losses) on inventories net of tax	(39.0)	(86.0)
Derivatives relating to transactions non pertaining to the year	0.7	0.0
Non-recurring items after tax	14.7	45.5
Comparable NET RESULT	**217.4**	**155.9**

In 2016, "non-recurring items net of tax" include a number of write-downs of property, plant and equipment and tax assets, in addition to the provisions mentioned in the previous paragraph. In 2017, non-recurring items net of tax refer to the provision for interest on past supplies requested by a counterparty, in addition to the aforesaid provisions for risks in connection with energy efficiency certificates, gains on the sale of energy efficiency certificates and a reclassification. **Lastly, investments for 2017 amounted to EUR 205.0 million** and were mainly dedicated to the Refining segment (EUR 186.1 million).

NET FINANCIAL POSITION

The Net Financial Position at 31 December 2017 was positive and equal to EUR 87 million, compared with EUR 99 million at 31 December 2016. The cash flow generated by operations was absorbed by the final payment for crude oil purchased from Iran in 2012, investments during the year and payment of the dividend in May 2017.

KEY GROUP FINANCIAL AND OPERATING RESULTS:

EUR million	2017	2016
Medium and long-term bank loans	(59)	(183)
Medium and long-term bonds	(198)	0
Other medium and long-term financial assets	8	6
Net medium and long-term financial position	**(249)**	**(177)**
Current bank loans	(0)	(16)
Payables to banks for bank overdrafts	(4)	(39)
Other short-term financial liabilities	(125)	(77)
Fair value derivatives and net differentials made	2	(35)
Other financial assets	43	84
Cash and cash equivalents	422	359
Net current financial position	**337**	**276**
Total Net financial position	**87**	**99**

SEGMENT REVIEW

To coherently outline the performance of the Group's activities, the information on individual companies refers to the business segments identified in the Financial Statements of previous years, also including the valuation of intersectoral services that no longer exist as a result of extraordinary company transactions, under the same conditions provided for in previous contracts.

REFINING

The Saras Group is active in the Refining sector through its Sarroch refinery, which is one of the biggest in the Mediterranean in terms of production capacity (15 million tons/year), and also in terms of the complexity of plants, it is ranked among the best in Europe (10 on the Nelson Index). Located on the coast south-west of Cagliari, it enjoys a strategic position in the middle of the Mediterranean Basin, close to the various crude supplier countries and the main markets for refined products.

Average values per year [1]	2017	2016
Crude Oil ($/bl)		
Price of Dated Brent (FOB Med)	54.2	43.7
Price of Urals (CIF Med)	53.3	42.5
"Heavy-Light" price differential	-0.9	-1.2
Refined Products ($/ton)		
ULSD	490.5	395.0
Gasoline 10ppm	548.2	462.4
HSFO	298.3	205.6
Crack spreads ($/bl)		
crack spread ULSD	11.6	9.2
crack spread Gasoline	11.5	11.6
crack spread HSFO	-6.8	-11.1
Other indicators of profitability		
EMC Benchmark margin ($/bl)	+3.5	+2.9
EMC Benchmark (fuel oil spread) [2]	+3.2	
USD/EUR forex	1.130	1.107

1. Source Platts **for prices and crack spreads, and** EMC **for the "EMC Benchmark" refining margin**

N.B. **"Dated Brent"** is the light sweet reference crude oil (Platts' FOB Med prices), while **"Urals"** is the heavy sour reference crude oil (Platts' CIF Med prices)

2. Net of the distorting effect of the strengthening of fuel oil crack spread compared to the same period of the previous year

Reference market

Dated Brent prices remained fairly stable in the first months of 2017, at around 55 $/bl, as the markets waited to assess the effects of the production cuts implemented by OPEC producers and other countries that are not members of the cartel, including Russia. The increase in production by Libya and Nigeria, where the cuts did not apply, and the restart of production of non-conventional oils in the USA, gradually weakened the price of Brent, which dipped to approximately 44 $/bl in June, its lowest level of the year. Starting from July, the price of Dated Brent gradually increased and ended the year at more than 65 $/bl. This trend was driven by higher-than-expected demand for oil products, especially during the summer, but also by the rekindling of geopolitical tensions in the Middle East and technical issues in Libya and the North Sea which resulted in a temporary reduction in supply. The average price of Brent for the year stood at around 54 $/bl, about 24% higher than in the previous year.

Crude oil remained in abundant supply. The cut-backs by OPEC producers mainly focused on heavy crude with a high sulphur content (heavy sour) whereas the crude placed on the market by those countries was predominantly light low sulphur (light sweet) and the "heavy-light" differential narrowed.

These conditions were favourable for the refining industry in general and particularly for simpler refineries. But for more complex refineries like the one managed by the Saras Group, it became more difficult to achieve a higher refining margin than the EMC Benchmark.

As regards the consumption of refined products, the acceleration of global economic growth buoyed demand, which grew by +1.5 mbl/d compared to 2016, in line with a trend of recovery that started in 2015.

Crack spreads improved in 2017 and were slightly higher than in 2016. Margins reached particularly high levels between August and September, which coincided with the unscheduled shutdown of some refineries in Europe and the United States. They then weakened in the last quarter, also due to the fact that the United States and Russia resumed production at full capacity upon completion of scheduled and unscheduled maintenance work.

Below is a detailed analysis of trends in prices of crude oil and refined products, and of the refining margin of reference (EMC Benchmark) for the European market, which is the main geographical context in which the Saras Group refining segment conducts its operations.

Crude oil prices (Source Platts)

The first quarter of 2017 opened with crude oil standing at around 55 $/bl, pushed up by the effect of the announcement by OPEC producers that they intended to cut production by 1.2 mbl/d starting from January 2017. A number of non-OPEC producers followed suit and also committed to cutting production by a further 0.6 mbl/d (half of which by Russia). In January and February the price of Brent fluctuated within a narrow band ranging from around 53 to 56 $/bl as the markets awaited confirmation as to the actual implementation of the cuts that had been announced and the corresponding response by producers who had not committed to the cuts. Brent started to fall in March and ended the quarter at 51.9 $/bl, recording an average price of 53.7 $/bl.

Starting in the second half of April, the price of Brent gradually weakened on the back of data regarding growth in production by the USA and higher inventory levels, coupled with a rise in production volumes by Libya and Nigeria, which were exempt from the cuts. Following a slight upturn in view of the OPEC summit on 25 May, when members agreed to maintain overall oil production cuts until the first quarter of 2018 in order to rebalance the market and reduce the level of oil inventories, the price of Brent fell back in June, to reach around 47 $/bl. Overall, Brent closed the second quarter with an average price of 49.6 $/bl.

The price of Brent remained fairly stable in July, never exceeding 50 $/bl. Prices started to rise in August, driven by higher-than-expected demand and a gradual decline in inventories. In the USA, production of tight oil from shale rock slowed down, boosting bullish positions by investment funds. The quarter closed at 57.2 $/bl, with an average of 52.1 $/bl.

The upward trend in Brent prices continued in the last quarter and speculative bullish positions reached their highest in the last three years. This trend was driven by a number of factors, including the agreement in Vienna at the end of November to maintain production cuts for the whole of 2018, tensions in the Middle East, especially protests in Iran which, though not directly affecting production, turned the spotlights on the geopolitical risks in the region. In December the Forties pipeline, which carries around 450,000 barrels of oil a day from the North Sea to the UK mainland, was shut down for a few weeks due to technical problems. This, and an explosion at a pipeline in Libya, temporarily reduced supplies, pushing up the price of Brent even further. The average in the fourth quarter was 61.3 $/bl, up by over 9 $/bl compared with the average for the previous quarter.

Price differential between “heavy” and “light” crude oils (“Urals” VS. “Brent”)

The first quarter of 2017 was characterised by the implementation of the previously announced production cuts which mainly affected "heavy-sour" crude oil. At the same time, higher production volumes in the USA, Libya and Kazakhstan increased the availability of "light-sweet" crude oil. This change in the supply mix was not immediately reflected in the "Urals" vs. "Brent" price differential, which posted an average of -1.2 $/bl, unchanged with respect to the same period of the previous year. It did however have a more marked effect on some crude oils sourced from the Middle East (Bashra Light, for example), which saw their discounts to Brent reduced, while higher production by Libya led to a reduction in premiums on some light crudes in the Mediterranean area such as Azeri Light and Saharan Blend.

Starting from April, the price of Urals crude oil was buoyed by the high volumes processed at Russia refineries and the effect of the production cuts, reducing its price differential with respect to Brent. This differential narrowed further in June, also because of a drop in exports from the port of Primorsk due to scheduled maintenance work on a pipeline, which were not offset by higher loadings from the ports of Ust-Luga or Novorosiysk. The differential for the second quarter averaged -0.8 $/bl.

Until mid-August restrictions on exports from the Baltic area owing to the aforesaid logistical factors, coupled with growth in demand by European refineries, further reduced the differential, bringing the price of Urals crude oil to the same level as that of Brent. Starting from the second half of August though, the recovery of export volumes, especially from the port of Primorsk, and the beginning of the autumn maintenance period of Russia refineries, resulting in a reduction in the demand for crude, led to a somewhat marked widening of the differential, which then narrowed again towards the end of September. The differential for the third quarter averaged -1.0 $/bl.

The "heavy-light" price differential shrank further in the fourth quarter, fluctuating between -1.0 $/bl and parity with Brent. This was mainly due to the increase in runs by Russian refineries upon completion of the seasonal maintenance work that had resulted in a drop in crude oil exports from the region. The "heavy-light" differential for the last quarter averaged -0.7 $/bl.

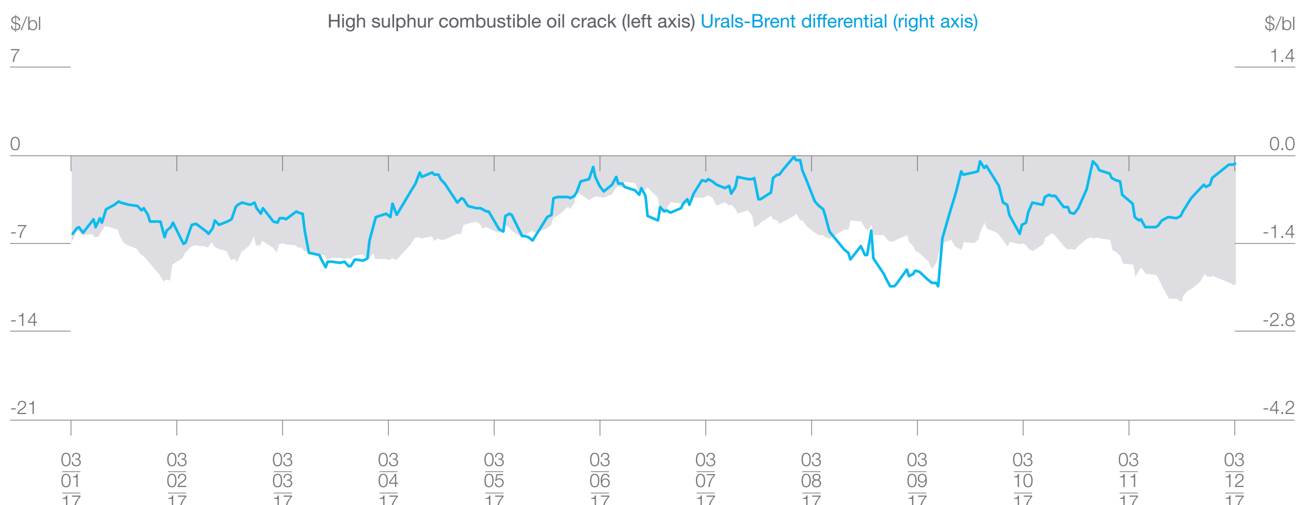
Crack spreads of the main refined products (i.e. the difference between the value of the product and the cost of crude oil)

In the first weeks of 2017 the gasoline crack spread gradually strengthened, settling on values above the seasonal average, driven by strong demand from Mexico, the USA and Asia and by technical issues at some Latin America refineries. The weakening of demand by West African countries, mainly due to the removal of subsidies on gasoline retail prices in Nigeria, brought the crack spread down to a minimum of 8.3 $/bl on 7 March. This was followed by a marked recovery that coincided with the shift to summer specifications, with the crack spread closing the quarter at above 12 $/bl. The average crack spread of gasoline was 11.4 $/bl in the first quarter of 2017.

The upward trend in the gasoline crack spread continued in April, when it exceeded 15 $/bl, before falling back to average values closer to those of the same period of the previous year and in line with the usual seasonal values. Strong Asian demand (India, Pakistan and Indonesia) was met by the increase in production especially in the USA. The average gasoline crack spread was 12.5 $/bl in the second quarter of 2017.

The good gasoline crack spreads recorded in the first part of the year were confirmed in the summer months due to strong demand for fuel (also from the USA) and unscheduled maintenance work at some European refineries, in-

PRICE DIFFERENTIAL OF "URALS-BRENT" CRUDE OIL, AND THE CRACK SPREAD OF FUEL OIL (SOURCE: PLATTS)



cluding the Pernis plant near the port of Rotterdam. In the last days of August, the gasoline crack spread exceeded 20 $/bl in the aftermath of hurricane Harvey, which temporarily knocked out about 4 mbl/d of refining capacity in Texas and Louisiana (approx. 20% of the USA's total refining capacity). The crack spread then held up well until mid-September, after which it fell back to about 10 $/bl in the second half of the month as the USA refineries gradually restarted production. The average gasoline crack spread was 13.1 $/bl in the third quarter of 2017.

The gasoline crack spread remained under pressure throughout the last quarter, due to seasonally weak demand combined with the end of the autumn maintenance cycle at global refineries and particularly high capacity utilisation in the USA which continued to affect crack spreads in December. The average gasoline crack spread for this quarter was 8.9 $/bl .

Turning now to middle distillates, the crack spread of diesel remained on good levels for the first quarter of 2017, benefiting from strong demand for heating oil, driven by cold winter weather especially in the northern hemisphere combined with the spring maintenance cycle implemented by global refineries. The crack spread weakened slightly in March, also as a consequence of the rise in Russian exports. The average crack spread of diesel was 10.3 $/bl in the first quarter of 2017.

In April, the diesel crack spread benefited from a brief upswing due to the spring maintenance period, and then fell back slightly in relation to the increase in refinery runs driven by strong light distillate cracks. The average for the second quarter of 2017 was 10.6 $/bl, more or less in line with the first quarter.

In the summer months, the diesel crack spread remained very strong, driven by European demand, which was positively influenced by a surge in tourism but also by some unscheduled maintenance work (in particular, the Elefsis refinery in Greece stopped gas oil production). This led to an increase in imports from the United States which temporarily came to a halt at the end of August due to the aforementioned effects of hurricanes that hit the Gulf of Mexico, triggering a further strengthening of margins in September. The average for the third quarter of 2017 was 13.0 $/bl.

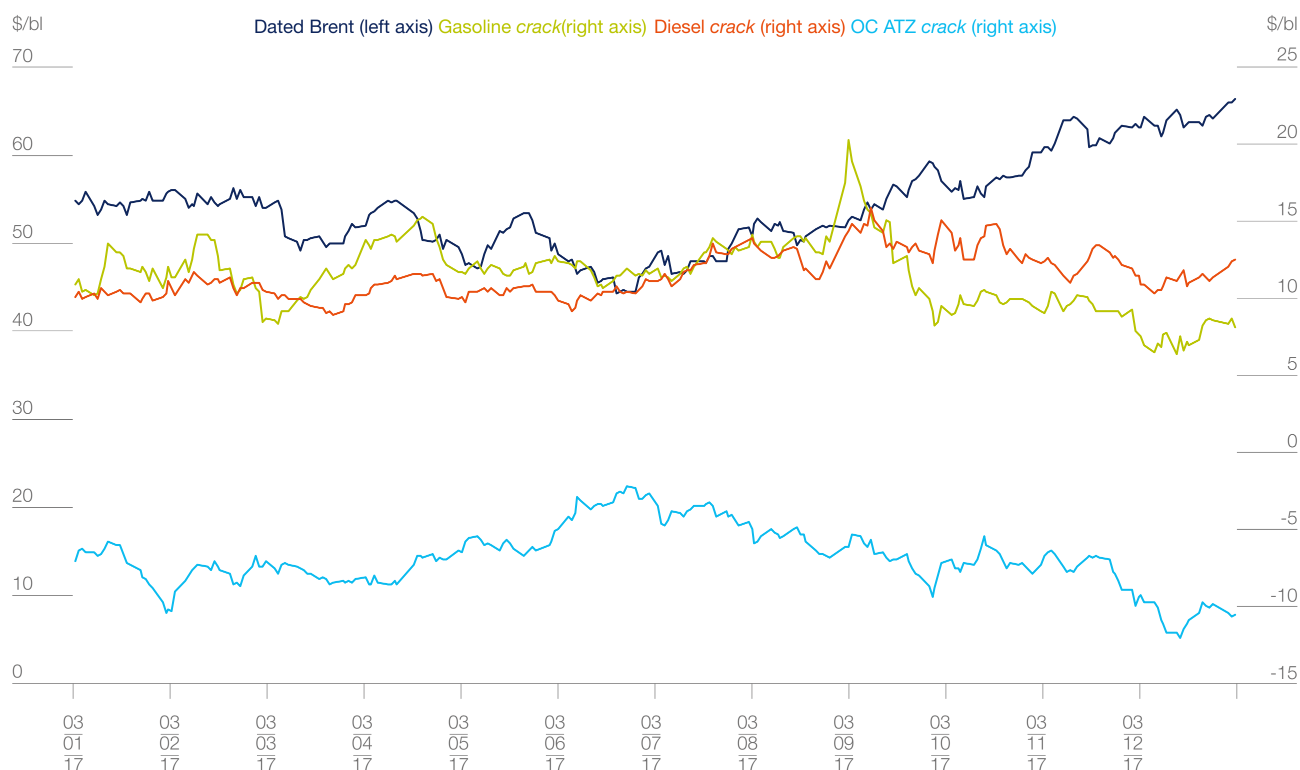
Lastly, in the last quarter of 2017, the diesel crack spread continued to be relatively high, in relation to the same period of the previous year, although it weakened slightly between October and mid-December. Middle distillate margins were sustained by low inventory levels and increased demand, due to the combined effects of robust global economic growth and the seasonal drop in temperatures that benefited consumption of heating oil. These positive factors were partially offset by the rise in imports, especially from Russia, but also from India and China. The average for the last quarter of 2017 was 12.3 $/bl.

Reference refining margin

As regards the analysis of the profitability of the refining sector, Saras uses the refining margin calculated by EMC (Energy Market Consultants) as a reference for a medium complexity coastal refinery, located in the Mediterranean Basin which processes a feedstock made up of 50% Brent and 50% Urals crude oils.

This reference margin (called the "EMC Benchmark") averaged 3.5 $/bl in 2017. In detail, in the first quarter the EMC averaged 3.3 $/bl and then strengthened to 3.8 $/bl in the second quarter and to 4.6 $/bl in the third quarter thanks to high gasoline and diesel crack spreads during the summer months driven both by structural factors, including strong global demand, and contingent factors (unplanned maintenance at some refineries). The margin averaged 2.3 $/bl in the last quarter as a consequence of seasonal weakening of the gasoline and fuel oil cracks and the rapid rise in Brent. The first nine months of the year were supported by the strength of fuel oil, that has a high relevance in the yields of the EMC model. This unusual trend in fuel oil margins was driven by lower available volumes, as a consequence of higher duties levied by the Russian government on exports by domestic refineries, in addition to refiners' lower use of heavy grades due to the narrowing of discounts to Brent in the wake of the cuts implemented by OPEC as from January 2017. The crack spread of fuel oil began to weaken in the last quarter,

PRICE DIFFERENTIAL OF "URALS-BRENT" CRUDE OIL, AND THE CRACK SPREAD OF FUEL OIL (SOURCE: PLATTS)



Crack spread: difference between the price of a finished product (e.g. gasoline or diesel) and the price of the reference crude oil (e.g. Dated Brent)

reflecting a drop in demand that was also due to the closure of a number of electricity generation plants in Pakistan that used such fuel, and higher available volumes as a result of high global refining capacity utilisation.

Thanks to the flexibility and complexity of its plants, the Saras Group refinery achieved a higher refining margin than the EMC Benchmark reference margin. However, the size of the Saras premium above the EMC Benchmark is variable and mainly depends on the specific market conditions, as well as the trend of industrial and commercial operations in each quarter.

Specifically, the higher crack spread of fuel oil compared to that achieved in the previous year led to a rise in the EMC Benchmark reference margin, which Saras was only partially able to harness as its fuel oil production is significantly lower than that modelled in the reference margin (about 6% compared to 15% of the EMC Benchmark). Net of this distorting effect, worth approx. 0.3 $/bl, the EMC Benchmark reference margin would have been 3.2 $/bl (compared to 3.5 $/bl) and the Saras margin premium 2.8 $/bl (compared to 2.5 $/bl).

Main operating results

REFINERY RUNS	2017	2016	%
CRUDE			
thousand tons	14,060	12,962	8%
million barrels	102.6	94.6	8%
thousand barrels/day	281	259	8%
ADDITIONAL LOADS			
thousand tons	1,291	1,598	-19%

Crude refinery runs during 2017 stood at 14.06 million tons (102.6 million barrels, corresponding to 281,000 barrels/day), up by 8% on 2016. Conversely, additional crude load runs amounted to 1.29 million tons, down on the 1.60 million reported in 2016, also for commercial reasons. These differences are mainly due to a less onerous scheduled maintenance cycle than in the previous year.

RAW MATERIALS BY TYPE		2017	2016
Light extra sweet		36%	33%
Light sweet		12%	9%
Medium sweet/extra sweet		0%	0%
Medium sour		37%	39%
Heavy sour/sweet		15%	19%
Average Density	°API	33.7	33.3

The mix of crudes that the Sarroch refinery processed in 2017 had an average density of 33.7°API, and is therefore lighter than the average density processed in 2016 (33.3°API). A more detailed analysis of the crude oil grades used reveals an increase in the percentage of light crude oils with a low and very low sulphur content ("light sweet" and "light extra sweet"), and a reduction in the percentage of heavy crude oils with low and high sulphur content ("heavy sour" and "heavy sweet") and medium crude oils with a high sulphur content ("medium sour"). This processing mix was partly due to contingent plant set-up situations (arising from scheduled maintenance) but also to economic and commercial choices in view of changes in supplies as a result of the cuts implemented by OPEC, which mainly affected heavy crude oils, and the abundance of light crude.

RAW MATERIALS BY ORIGIN	2017	2016
North Africa	19%	9%
North Sea	3%	2%
Middle East	39%	34%
Russia and Caspian region	24%	26%
West Africa	14%	21%
Others	1%	8%

Turning to the analysis of finished product yields, yields of middle distillates (50.4%) were higher in 2017 than in 2016 (49.1%) because of the good commercial opportunities for these products. Yields of LPG (2.1%) remained unchanged, while yields of light distillates (27.0%) fell compared to those reached in the previous year. The yield of TAR remained fairly low (7.1%) also owing to the scheduled maintenance work carried out on the Visbreaking plant (in the first quarter) and on the IGCC plant (in the first half), whereas the yield of fuel oil rose (7.0%) to take advantage of strong demand for this product.

PRODUCTION		2017	2016
LPG	thousand tons	318	303
	yield	2.1%	2.1%
NAPHTHA + GASOLINE	thousand tons	4,152	4,140
	yield	27.0%	28.4%
MIDDLE DISTILLATES	thousand tons	7,742	7,150
	yield	50.4%	49.1%
FUEL OIL & OTHERS	thousand tons	1,077	854
	yield	7.0%	5.9%
TAR	thousand tons	1,085	1,181
	yield	7.1%	8.1%

Note: **The balance to 100% of production comprises “Consumption & Losses”**

Main financial results

	2017	2016	%
EBITDA	276.9	418.3	-35%
Comparable EBITDA	**282.2**	**279.1**	**1%**
EBIT	160.3	281.5	-43%
Comparable EBIT	**165.6**	**162.3**	**2%**
CAPEX	**186.1**	**133.6**	

The comparable EBITDA amounted to EUR 282.2 million in 2017, with a Saras refining margin of +6.0 $/bl. This compares with a comparable EBITDA of EUR 279.1 million and a Saras refining margin of +6.6 $/bl in 2016. As always, the comparison between the two periods must take into account market conditions and the specific performance of the Saras Group, both from an operational and commercial perspective.

With regard to market conditions, the increase in crude oil prices in 2017 combined with other market factors resulted in a loss of approximately EUR 120 million compared to 2016 (also including the increase in the cost of "consumption

and losses"). This trend was offset by the strengthening of the diesel crack spread (the gasoline crack remained unchanged with respect to the previous year), which boosted the value of production by around EUR 120 million compared to the same period of the previous year. The effect of the EUR/USD exchange rate (1 EUR was worth 1.107 USD in 2016 and 1.130 in 2017) was negative for approximately EUR 10 million.

With regard to operational performance, in 2017 production planning (which consists in optimising the mix of the crude oils for processing, the management of semi-finished products, and the production of finished products, including those with special formulations) resulted in an EBITDA approximately EUR 5 million higher than in the previous year, thanks to the optimisation of the management of the crude oil mix, especially in the second half of the year and notwithstanding a more challenging scenario in terms of discounts on heavy crude oil following the implementation of production cuts by OPEC and non-OPEC producers.

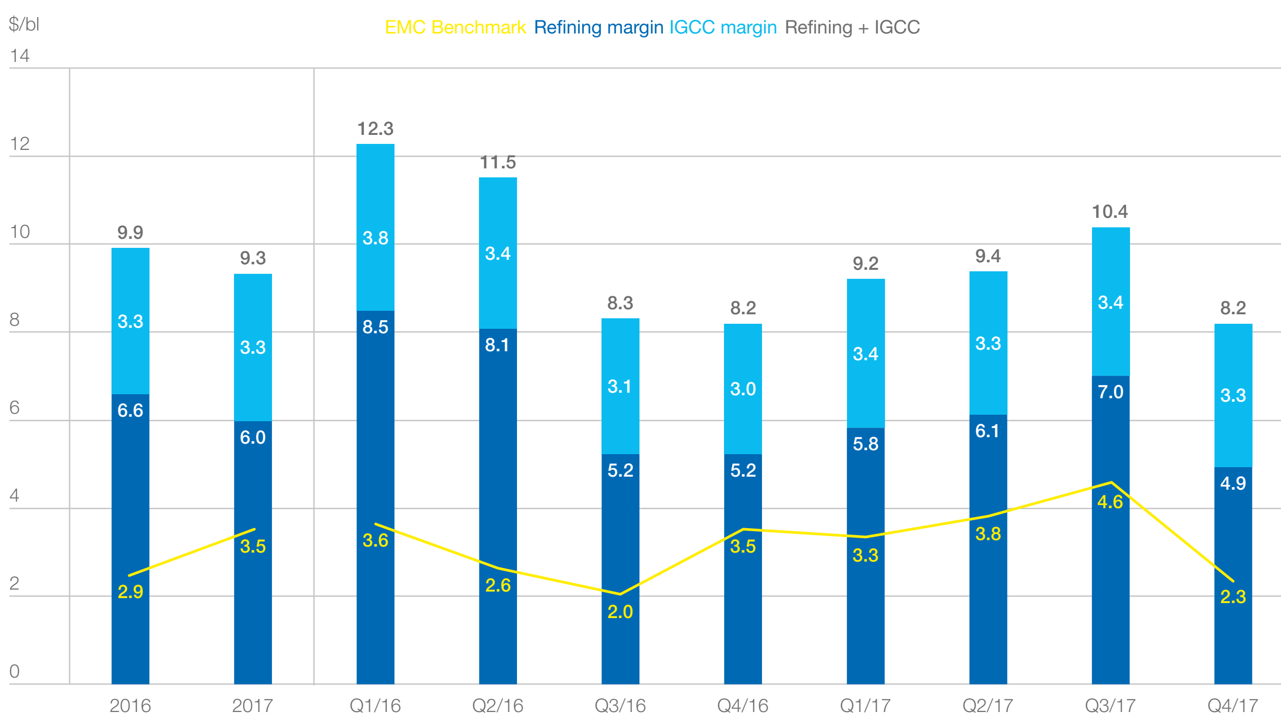
The execution of production activities (which takes account of losses in connection with scheduled and unscheduled maintenance, and increased consumption with respect to the technical limits of certain utilities such as fuel oil, steam, electricity and fuel gas) resulted in the EBITDA being almost EUR 10 million higher than in 2016 thanks to less onerous maintenance than in the previous year and despite a lower than expected performance.

Commercial management (involving the supply of crude and additional raw materials, the sale of finished products, the rental costs of oil tankers, and inventory management, including mandatory stocks) generated a positive contribution to the result and was substantially in line with the previous year.

Investments made in 2017 totalled EUR 186.1 million.

The graph below shows in detail the changes to the margins achieved by the Saras Group refinery during 2016 and 2017, both on an annual and a quarterly basis. It can be noted that, thanks to the flexibility and high conversion of its plants, the Saras Group refinery achieved a higher refining margin than the EMC Benchmark reference margin. However, the size of the Saras premium above the EMC Benchmark is variable and mainly depends on the specific market conditions, as well as the trend of industrial and commercial operations in each quarter.

SARAS GROUP: INTEGRATED MARGINS 2016 – 2017



Refining margin: comparable EBITDA (of the Refining sector + Fixed Costs) / Refinery runs in the period.

IGCC Margin: (EBITDA IGCC plant + Fixed Costs) / Refinery runs in the period

EMC Benchmark Margin: refining margin calculated by EMC (Energy Market Consultants), with crude slate 50% Urals and 50% Brent

ELECTRICITY GENERATION

The Saras Group operates in the electricity generation sector, through an IGCC plant (Integrated Gasification Combined Cycle) at the Sarroch industrial site and perfectly integrated with the Group refinery.

The IGCC plant, owned and managed by the subsidiary Sarlux Srl, is one of the biggest of its kind in the world. It has an installed capacity of 575 MW and produces more than 4 billion kWh/year of electricity, contributing to about 45% of Sardinia's energy needs. Moreover, the IGCC plant is one of the fundamental units of the refinery for the conversion of heavy products and, at the same time, it is the most important utility of our industrial site, because it provides high volumes of hydrogen to the "hydrocracking" and "hydrotreating" units of the refinery, and it also produces high quantities of steam, which are needed in several other units in the refinery.

Average values per year		2017	2016 (1)
Italian Total Power Demand	GWh	320,437	314,261
Import	GWh	37,760	37,026
Internal Production (2)	GWh	285,118	279,703
of which: *Thermoelectrical*	GWh	199,500	190,771
National Electricity Tariff (PUN) (3)	EUR/MWh	53.95	42.78

1. Estimated data Terna (www.terna.it), subject to correction
2. Production net of consumption for auxiliary services
3. Source GME SpA (www.mercatoelettrico.org)

Reference market

Domestic electricity demand in 2017 (including network losses and net of electricity intended for consumption for auxiliary services) was 320,437 GWh, up 2.0% compared to 2016.

The change in energy consumption compared to the previous year was positive in all areas observed except Sardinia, where it was more or less in line with the previous year, and the Northwest grouping, which includes Piedmont, Liguria and Valle d'Aosta. The biggest increase in demand was in the Tuscany and Emilia-Romagna grouping (+4.5%), followed by the Central grouping of Abruzzo, Marche, Lazio, Umbria and Molise (+2.6%) and Lombardy (+2.3%). Demand by the Campania, Basilicata, Calabria and Puglia grouping, the Triveneto grouping and Sicily increased by about 1%.

In 2017, the domestic demand for electricity (net of electricity for consumption for auxiliary services) was met for 62.3% with thermoelectric production, 11.7% with hydroelectric production, 15.0% with other renewable sources (geothermal, wind power and photovoltaic production), and the remaining 11.8% with electricity imported from abroad. Net internal electricity production amounted to 285,118 GWh, up by 1.9% compared to 2016 (279,703 GWh) and met 89% of Italian domestic electricity demand. The trade balance increased by 2% in 2017 after reaching historically high levels in the previous year.

The average value of the PUN (National Electricity Tariff) in 2017 stood at EUR 53.95/MWh, an increase of approximately 26% compared to the previous year (EUR 42.78/MWh), owing to the rise in oil and gas prices, a reduction in hydroelectric power production due to climatic conditions and the rise in electricity consumption, as described previously.

Main operating and financial results

		2017	2016	Change %
ELECTRICITY PRODUCTION	GWh	4,085	4,588	-11%
POWER TARIFF	EURcent/KWh	8.7	8.1	7%
SERVICE FACTOR	%	84.6	94.8	-
TAR FEEDSTOCK TO THE IGCC PLANT	thousand tons	1,085	1,181	-8%

The operational results of the Electricity Generation segment reflected a more substantial maintenance schedule than in the previous year, and lower production. The service factor decreased by more than 4% in respect of the average for the last 10 years.

The entire cycle of maintenance work on the Electricity Generation plant scheduled for 2017 was performed during the first half. In detail, scheduled maintenance work was performed on two "Gassifier – combined cycle Turbine" trains and on an " H2S absorber" train during the first quarter and on the third "Gassifier – combined cycle Turbine" train in the second quarter.

Electricity production reached 4.09 TWh, 11% less than in the previous year.

EUR million	2017	2016	change %
EBITDA	185.1	182.1	2%
Comparable EBITDA	**196.6**	**195.4**	**1%**
EBIT	134.0	83.0	61%
Comparable EBIT	**145.5**	**96.3**	**51%**
EBITDA ITALIAN GAAP	**97.7**	**133.9**	**-27%**
EBIT ITALIAN GAAP	**80.4**	**68.6**	**17%**
CAPEX	**16.6**	**9.6**	

Comparable EBITDA stood at EUR 196.6 million, practically in line with the EUR 195.4 million achieved in 2016. In detail, the greater contribution of equalisation, the rise in the value of the CIP6/92 tariff (+7%) and the increase of around EUR 10 million in sales of steam and hydrogen (not subject to the equalisation procedure) compared to the previous year amply offset the upswing in fixed costs related to the onerous maintenance schedule and the reduction in production volumes. It should also be noted that the difference between comparable and reported EBITDA is attributable to a reclassification.

Moving on to the analysis of EBITDA calculated according to Italian accounting standards, this stood at EUR 97.7 million in 2017, down on the EUR 133.9 million achieved last year. The difference is due to the combined effect of lower electricity production (-11%) and the rise of around EUR 10 million in the purchase cost of raw material (TAR). These factors were partially offset by the higher CIP6/92 tariff (+7%) and the increase in sales of hydrogen and steam (for about EUR 10 million) discussed above.

Investments amounted to EUR 16.6 million, an amount consistent with the major scheduled maintenance services that were performed during the year.

MARKETING

The Saras Group conducts its Marketing business in Italy and in Spain directly and through its subsidiaries, primarily in wholesale channels. In this regard, in Italy the Group owns and operates a coastal depot for oil products located in Arcola (La Spezia), with a total capacity of 200,000 cubic metres, and it also has some long-term rental contracts for storage space in other depots owned by third parties, and located primarily in the central and northern parts of the Italian peninsula (Livorno, Ravenna, Marghera, Trecate/Arluno, Fiorenzuola, Genoa, etc.).

In Spain, the subsidiary Saras Energia manages a depot owned by the Group and located in Cartagena (Spain), with a total capacity of 114,000 cubic metres, and it also uses oil terminals in other Spanish provinces (owned by operators like Decal, Esergui and CLH), in order to distribute oil products in the entire Iberian peninsula. Saras Energia also manages a retail network composed of 95 service stations (of which 84 fully owned and the other 11 on a long-term lease), located primarily along Spain's Mediterranean coast.

Reference market

According to data collected by UP (Unione Petrolifera – the Oil Industry Union), total oil consumption amounted to approximately 58.5 million tonnes in 2017, down 1.6% compared to the previous year on the Italian market, which represents the main wholesale channel of the Saras Group. This trend was attributable to the fall in consumption of gasoline (-4.1%) and diesel (-1.1%). Lower volumes of fuel oil (-10.5%) were amply offset by the increase in demand for bunker fuel (+4.9%). Total fuel consumption (gasoline + diesel), which amounted to around 30.3 million tonnes, decreased by 1.8% and economic recovery does not appear to have produced positive effects in the transport fuel sector, unlike in the main European countries. In 2017 new vehicle registrations increased by around 8%, with diesel vehicles accounting for 56.4% of the total, substantially in line with the previous year. There was a marked increase in sales of hybrid (+75%) and electric vehicles (+48%), although these only represent 3.3% and 0.1% of the total.

Conversely, on the Spanish market, preliminary data compiled by CORES show a general increase of 1.2% in consumption compared to 2016. More in detail, total diesel consumption increased by 1.6%, gasoline consumption by 2.3% and that of kerosene by 8.8%, while there was a 4.8% drop in fuel oil consumption.

Main operating and financial results

		2017	2016	Change %
TOTAL SALES	**thousand tons**	**3,653**	**4,084**	**-11%**
of which in Italy	thousand tons	2,169	2,298	-6%
of which in Spain	thousand tons	1,484	1,787	-17%

In terms of operating performance, the Group's sales volumes fell by 6% in Italy and by 17% in Spain compared to 2016. Streamlining the customer portfolio, reducing fixed and variable costs and improving margins resulted in a significant increase in profitability and the comparable **EBITDA for the segment amounted to EUR 15.2 million in 2017**, up on the EUR 3.6 million achieved in 2016.

Investments amounted to EUR 0.9 million in 2017.

EUR million	2017	2016	change %
EBITDA	13.9	9.9	41%
Comparable EBITDA	**15.2**	**3.6**	**318%**
EBIT	8.4	4.2	101%
Comparable EBIT	**9.7**	**(2.1)**	**572%**
CAPEX	**0.9**	**1.4**	

WIND POWER

The Saras Group has been active in the production and sale of electricity from renewable sources since 2005, through its subsidiary Sardeolica Srl, which manages a wind farm located in the Municipality of Ulassai (Sardinia). The farm comprises 48 Vestas V80 wind turbines, with a total installed capacity of 96 MW, and has a management system certified to BS OHSAS 18001:2007 (Health and Safety), ISO 14001:2004 (Environment), ISO 9001:2008 (Quality) and, as from July 2017, ISO 50001:2011 (Energy).

In 2017, production at the Ulassai wind farm amounted to 168,473 MWh, which corresponds to the annual electricity requirements of more than 130,000 people. Exploiting the renewable wind source has thus resulted in a saving of almost 220,000 barrels of oil, with the consequent reduction of approximately 110,000 tonnes of CO_2 emissions. Moreover, cumulatively in the period starting from its operational start date until 31 December 2017, the wind farm's electricity production has reached 2,053,942 MWh.

Production 2017 [MWh]	Equivalent annual population[1]	TEP2 "saved"	Barrels of oil3 "saved"
168,473.0	134,456	31,504.5	215,784
Production 2017 [MWh]	**Polluting**	**Specific emissions4 [kg/MWh]**	**Emissions avoided [t]**
168,473.0	CO_2	648	109,170.5

1. Energy consumption per capita in Sardinia for domestic use, 2016: 1,253 kWh/person/year (Terna: Dati Statistici, Consumi http://download.terna.it/terna/0000/0964/23.PDF)
2. 1 kWh = 0.187×10-3 TEP (AEEGSI, Resolution EEN 3/08, http://www.autorita.energia.it/it/docs/08/003-08een.htm)
3. 1 equivalent barrel of oil = 0.146 TEP (https://it.wikipedia.org/wiki/Tonnellata_equivalente_di_petrolio)
4. Regional Environmental Energy Plan for Sardinia. "Towards a shared energy economy". Adoption of the technical proposal and start of the strategic environmental assessment procedure, p. 114 (http://www.regione.sardegna.it/documenti/1_274_20160129120346.pdf)

Production 2005 – 2016 [MWh]	Equivalent annual population[1]	TEP2 "saved"	Barrels of oil3 "saved"
2,053,942.0	1,639,219	384,087.2	2,630,734
Production 2005 – 2016 [MWh]	**Polluting**	**Specific emissions4 [kg/MWh]**	**Emissions avoided [t]**
2,053,942.0	CO_2	648	1,330,954.4

Reference market

2017 was another difficult year for wind power in Italy, with only 200 MW of new wind power installed in the entire country, substantially in line with the previous year's low levels of new installations. In fact, for some years now the Italian wind power sector has been experiencing difficult conditions, due to changes in the incentive mechanisms, now based on the "unique bid auction" system.

The latest data produced by Terna show that wind power in Italy produced 17,492 GWh in 2017, substantially in line with 2016 thanks to good wind conditions. Wind power production covers 6.1% of domestic electricity production and 5.5% of electricity demand in Italy.

At global level, overall investments in renewable energy stabilised at the levels of the previous year (approximately 330 billion $ according to a study by Bloomberg New Energy Finance), with China leading the way to account for more than 40% of the total, followed by the USA. Specifically, overall investments in wind power fell with respect to the previous year and were mainly directed towards offshore installations.

Main operating and financial results

		2017	2016	Change %
ELECTRICITY PRODUCTION	MWh	168,473	195,360	-14%
POWER TARIFF	EURcent/KWh	5.0	4.0	25%
Incentive TARIFF	EURcent/KWh	10.7	10.0	7%

In 2017 the comparable EBITDA for the Wind Power segment (equal to the IFRS EBITDA) stood at EUR 23.1 million, substantially in line with the EUR 23.8 million reported in 2016 in that less favourable wind conditions resulted in a 14% reduction in electricity production compared to the previous year, which was however offset by increases in the Incentive tariff (+0.7 EURcent/Kwh compared to the previous year), and in the Power tariff (+1,0 EURcent/kWh, compared to the previous year).

EUR million	2017	2016	change %
EBITDA	23.1	23.8	-3%
Comparable EBITDA	**23.1**	**23.8**	**-3%**
EBIT	18.5	19.2	-4%
Comparable EBIT	**18.5**	**19.2**	**-4%**
CAPEX	**0.5**	**0.4**	

SARTEC (SARAS RICERCHE E TECNOLOGIE)

Sartec Srl, a wholly-owned subsidiary of Saras SpA, is the Group Company that develops and supplies innovative technology and carries out applied research to optimise resources and performance.

Sartec operates in the following sectors:

- energy efficiency and industrial reliability, with business lines dedicated to industrial design, process research, and to providing industrial services;
- environmental sustainability (environmental engineering, development of models and monitoring, environmental analysis and measurement systems, analytical and laboratory services);
- Digital and Industry 4.0 projects (data analysis, knowledge management, digital asset management, enterprise content management, cyber security, digital safety advice, VR training,..)

The 2017 results confirm the trend of constant growth in sales and margins recorded over the last three years. In particular, production volumes benefited from an increase in activities aimed at supporting the implementation of the investment plan for 2017-2020 of the subsidiary Sarlux, maintaining in parallel the protection of activities developed for the "non-captive" market, such as the continuation of the project undertaken in collaboration with an important European partner for the new refinery under development in Jazan, Saudi Arabia.

This higher production volume resulted in increased margins as compared to trends in the previous two years.

In 2017 SARTEC continued to focus on and develop its core sectors of engineering and industrial services, energy efficiency and environmental engineering, and also invested resources in the development of digital and industry 4.0 projects and activities.

With reference to the captive market, it provided technological and operational support for development of engineering activities and solutions in a range of fields, and guaranteed the supply of maintenance and environmental monitoring services for the Sarlux refinery. Plant engineering and automation produced a total of about 140,000 hours of work for the design of new plants and the revamping of existing ones, in addition to maintenance engineering in order to optimise and implement new plant instrumentation. Activities undertaken during the year include: control room engineering and upgrading of the DCS system of the T2/V2 and TERMOKIMIK plants and Operations Centre 2, completion of engineering on the dynamic barrier and revamping of the propane-propylene splitter at the Northern Plants. It also continued to provide advanced and multi-variable control activities, as required by the internal customer Sarlux. Various services were provided during the year: the dynamic barrier system management and control cabinet, the H2S analysis systems at the MHC1, U500 and U700 plants, the TOC TAS analysers, the IUN (Internal User Network) cabinets at the Northern and Southern Plants, the skid-mounted dosing systems and samplers. As regards environmental engineering, the company assured a growing commitment to the activities in respect of the refinery's AIA (Integrated Environmental Authorisation permit) requirements: hydraulic and hydro-chemical monitoring aimed at keeping the groundwater safe, the construction of additional pumping wells, monitoring of fugitive emissions, air quality and odorous emissions. Activities involving research into the properties of crude oil continued, with monitoring of chemometric models of gas oils, gasoline and semi-finished products.

As regards energy efficiency projects for the Sarlux refinery, for which SARTEC operates with ESCo certification, the company undertook support activities geared towards obtaining energy efficiency certificates relating to energy saving projects, in addition to interventions to optimise lighting systems, condensation circuits and metering of IUN (Internal User Network) analysis cabinets.

With reference to the non-captive market, the main ongoing projects for industrial customers include that dedicated to automating the utilities of the refinery in Jazan, Saudi Arabia, which is being undertaken in partnership with leading international players. The project, which commenced in 2014, involving the engineering of the control room and improvements to the alarm system, was extended to pre-commissioning activities and, in the latter months of 2017, to commissioning. Both lines of activity will continue in 2018. SARTEC undertook an increasing number of plant engineering and analytical projects for Syndial and supplied cabinets and samplers for use by SAIPEM and LUKOIL.

The company continued to put forward commercial proposals in the field of energy efficiency: it carried out several energy audits during the year to identify ways of optimising industrial consumption of potential customers.

In the Public Administration sector, SARTEC conducted a study at regional level to examine the possibility of acquiring new customers within the framework of the regional call for tenders to improve the energy efficiency of public buildings. It developed and submitted five projects (the maximum number of projects envisaged by the tender for ESCos).

The company continued its activities in connection with the supply and maintenance of air quality monitoring systems for Public Administrations.

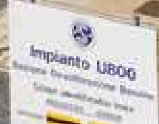
Research and development activities concentrated on improving core business areas such as energy efficiency and environmental engineering as well as the new business development line, focused on the implementation of digital and industry 4.0 projects. Within the scope of its environmental monitoring activities and under the agreement with the Department of Physics of the University of Cagliari, the procedure for filing the patent for the instrument for measuring the temperature of a torch flame (POS) was completed and an optical-instru-

ments laboratory has been set up for the construction and maintenance of these new instruments.

In the area of energy efficiency, studies are underway to develop a "micro greed" for the production and management of electricity at the V Strada site, with a view to testing and implementing advanced technical solutions that can also be used at larger industrial sites.

SARTEC embarked on a project with the University of Salerno to develop a system ("electronic nose") for continuously measuring odour levels at industrial plants.

The SARTEC chemical laboratory continued with its accreditation plan, with the addition of accredited methods EPA 3511, IPA 8270E for the determination of PAHs in underground water and UNI EN 13725 for the determination of the odour concentration of a gaseous sample; in November an assessment visit was carried out at the company to extend its accreditation for the methods EPA 5021A, EPA 8015C, EPA 3511 and EPA 8015C for the determination of hydrocarbons in water.


Impianto U800

Impianto U800

BUSINESS STRATEGY AND OUTLOOK

With its high conversion configuration, integration with the IGCC plant and an operational model based on integrated supply chain management, the Saras Refinery in Sarroch (Sardinia) occupies a leading position among European sites. Given such features, the Group is well positioned with respect to the expected evolution of the market of reference, especially with regard to the IMO – Marpol VI Regulations that, as from January 2020, envisage a reduction in the sulphur content of marine fuel emissions, and will lead to favourable conditions for sites like the one in Sarroch. The Group plans to pursue initiatives to improve the operational performance and reliability of its plants, optimise costs and complete the substantial investment cycle initiated in 2015. To further strengthen this process, an important digitalisation programme has recently been launched which will leverage on existing assets, such as the huge amount of data and the know-how of the Group's people, increasing the operational and commercial flexibility that has always characterised the Group's business model. The aim is to harness the opportunities offered by the foreseeable evolution of the reference scenario, so as to maintain a leadership position in the next decade.

2018 opened with the price of Brent at around 70 $/bl, its highest for three years, in the wake of the agreement reached by OPEC countries and other major producers to maintain production cuts in 2018, geopolitical tensions in the Middle East and technical hitches on oil pipelines in Europe and the United States which temporarily reduced supplies. Experts expect significant increases in production for the current year, especially by non-conventional US producers (tight oil from shale rock), stimulated among other things by higher oil prices, and a substantial balance between demand and supply. Brent is expected to average 60 $/bl. The price differential between light and heavy crude is not expected to undergo any significant change compared to the values recorded in 2017 as the extension of production cuts will continue to limit the supply of heavy- sour grades.

As regards consumption, in the recent report published in February 2018, the International Energy Agency (IEA) expects global demand to grow by +1.4 mbl/d in 2018, driven by non-OECD countries (primarily China).

Moving to the profitability of the main refined products, international experts believe that gasoline crack spreads were penalised in the first weeks of the year by the increase in the price of crude oil at a time of seasonally weak demand and should therefore rise to reach a yearly average of 10.5 $/bl (approximately 1 $/bl lower than in 2017 when it was pushed up by major unplanned shut-downs in refining capacity, especially during the summer). As regards middle distillates, experts predict a crack spread of diesel in the region of $12/bl (broadly in line with 2017) buoyed by demand for diesel for industrial use, which is known to be correlated with the economic cycle (GDP is expected to grow by 1.9% in Europe in 2018, and by 3.7% globally). All in all, such market conditions should pave the way for positive refining margins, albeit slightly lower than in 2017. The Saras Group will aim to achieve a premium above the EMC benchmark margin of approx. 2.5 ÷ 3.0 $/bl (net of maintenance).

From an operational standpoint, in 2018 the Refinery segment will face a maintenance cycle broadly in line with that of the previous year and mainly concentrated in the first half. In detail, the maintenance programme will be scheduled as follows: in the first quarter, maintenance will be carried out on the “T2” Topping, “V2” Vacuum and Northern Plants; in the second quarter, maintenance will be carried out on the “RT2” and “T1” Toppings, the “VSB” VisBreaking and the “MHC2” MildHydroCracking plants; no major maintenance activities are planned for the third quarter and scheduled activities will be carried out the “CCR” Catalytic Reforming plant. Overall, annual crude runs are expected to be about 13.8 ÷ 14.6 million tonnes (i.e. 101 ÷ 107 million barrels), plus a further 1 million or so tonnes of additional feedstock (corresponding to approximately 7 million barrels).

The Electricity Generation maintenance programme for the first quarter envisages some standard work on one of the three "Gasifier – Combined Cycle Turbine" trains and on one of the two H2S Absorber units. In the second quarter, maintenance will be carried out on the third "Gasifier – Combined Cycle Turbine" train. Between the third and fourth quarters, maintenance on the third "Gasifier – Combined Cycle Turbine" train will be completed. Total electricity production in 2018 is expected to pick up compared to the previous year, to reach approximately 4.30 TWh (4.09 TWh in 2017).

In the Marketing segment the Group expects to consolidate the previous year's improvement in its margins, achieved thanks to the optimisation of the customer portfolio.

In the Wind Power segment, the Sardeolica subsidiary will continue the Environmental Impact Assessment procedure relating to the planned extension of the Ulassai Park (located in the town of Ulassai and Perdasdefogu), for an additional capacity of 30 MW. The incentive period for part of the plant's 48 wind turbines will expire in 2018.

INVESTMENTS BY SEGMENT

In 2017 investments by the Saras Group amounted to EUR 205.0 million, compared to EUR 145.6 million in 2016, as the projects envisaged by the multi-year business plan, presented in October 2015, became fully operational and the Group continued activities to exploit more operational opportunities arising from the integration with the "Northern Plants", acquired from Versalis at the end of 2014). In detail, the new Fuel Gas and Steam interconnection systems became operational. Furthermore, as usual, a significant proportion of investments was dedicated to ensuring full compliance with all HSE requirements, and maintaining the operational efficiency of the plants. The breakdown of investments by business segment is shown in the corresponding table:

EUR million	2017	2016
REFINING	186.1	133.6
ELECTRICITY GENERATION	16.6	9.6
MARKETING	0.9	1.4
WIND	0.5	0.4
OTHER ACTIVITIES	0.9	0.6
Total	**205.0**	**145.6**

Investments in 2017 mainly regarded the refining segment and were aimed at improving production capacity and optimising processes.

Among the main investments were the Oxygen Enrichment system on the FCC unit to improve operational flexibility, the replacement of the Expander to enable electricity generation from heat recovery, and the electrification of the gas compressors in order to reduce steam consumption. These investments fall within the broader scope of projects aimed at further improving energy efficiency. The significant reduction in steam consumption obtained through energy integration of the MHC2 and TAME units is also worthy of note.

Upgrading of the South Wharf also continued and will allow large vessels to dock and be loaded, and work got underway to replace the crude oil loading lines (South Wharf).

Specific investments in the area of Health, Safety and the Environment (HSE) included the installation of a torch gas recovery system, the continuation of construction and restoration work on the double bottoms of some oil tanks and the addition of pumping wells ("dynamic barrier") for controlling groundwater. The vapour recovery unit (VRU) on the South Wharf and the sulphur degassing system project were also launched.

Making the most of the opportunities offered under the national Industry 4.0 Plan, the company also embarked on a major Digital project involving activities aimed at improving the operational efficiency and management of its plants and optimising maintenance schedules and activities. These include improvements to the control systems of the T2/V2 plants and to Operations Centre 4.

Pursuant to the provisions of article 5, paragraph 3(b) of Legislative Decree 254/2016, the company has prepared a Consolidated Non-Financial Statement which constitutes a separate report. The Consolidated Non-Financial Statement for 2017 has been prepared in accordance with GRI Standards as a separate document, the first Sustainability Report – Consolidated Non-Financial Report. In addition to fulfilling the requirements of Legislative Decree 254/16, it also sets out the Group's corporate purpose and strategy for sustainable growth. Aspects concerning Human Resources, Health, Safety and the Environment and Social Responsibility and Activities with the Community sections are therefore discussed in more detail in the Sustainability Report – Consolidated Non-Financial Statement.

HUMAN RESOURCES

Human resource management is an area of fundamental importance in ensuring the competitiveness of the Company. This chapter describes some of the projects undertaken, the results achieved, the enabling factors and the context in which certain projects were developed in order to enhance the organisation's ability to respond to ongoing changes. It is also an opportunity to reflect on the organisational and work culture on which the strategic plan is based and which will determine its future.

Indeed, some of the project and operational tools used in 2017 are examples of the Company's desire to manage its human resources by adopting a policy essentially based on the corporate purpose: "To become a point of reference as a provider of sustainable energy that fuels people's lives".

That is why the activities undertaken have focused on the need to invest in the workforce, which is one of our fundamental assets, and on developing their skills in order to achieve our ambitious goals.

As discussed below, that is why we place such importance on correct staff allocation, so that people are assigned to roles that are in line with their knowledge and experience. It is why we have focused on the management of certain critical processes, defining a scoreboard to help us identify priorities in an ever-changing business scenario. And it is why we have developed and implemented training programmes to explain and facilitate the implementation of the necessary organisational and operational changes that will allow the Group to meet the challenges of the market and ensure the future sustainability of its business.

Organisational development

The Group's workforce has increased slightly over the last three years, rising from 1,915 in 2015 to 1,944 in 2017.

44 years

The average age of Group employees

In 2017, the Group hired 36 new employees in Italy and Switzerland. Of these, 24 were aged under 33 and all held a degree, mainly in engineering. This step was taken to meet new needs in connection with the digitalisation and automation programmes and changes in supply chain and trading activities.

Some key functions were involved in reorganisation processes aimed at enhancing efficiency, reliability and operational flexibility, in order to guarantee sustainable growth in line with the Group's Business Plan. Coordinating and integrating the various aspects of such projects required a qualified commitment and a properly structured approach in order to ensure the continuity of ongoing projects. In detail, the Group invested in Planning and Development, an area responsible for assessing the performance of oil markets and possible growth scenarios for the Group, and for setting medium and long-term targets. This area is also responsible for guiding initiatives not only of a strictly industrial nature, but also in connection with the digitalisation of business processes, and for ensuring their sustainability over the long term. This function is therefore responsible for drawing up the Sustainability Report.

Other initiatives involved the organisation of activities along the supply chain, specifically by including the functions responsible for developing production cycle models and the optimised campaign programme.

In response to increasing levels of operational complexity, the Group has set up an Industrial Operations Department. Its purpose is essentially to coordinate the various organisational aspects involved in enhancing the activities of the Sarroch site in terms of technical and economic performance, investments, safety and security, including cyber security.

Specific responsibilities have therefore been assigned in connection with the planning and control of budgeted investments, procurement of the related assets and services and overall monitoring of performance and implementation of the Multi-year investment plan.

Industrial Relations

An agreement was signed in March linking the productivity bonus to improvements in production, progress made in investments, energy efficiency and maintenance costs. With specific regard to

the latter, the agreement includes monitoring of the time required to obtain work permits as a measure of improvements in the ability to plan works in the field with a view to enhancing efficiency. The specific indicators are monitored on a monthly basis by committees set up within the unified workplace union (RSU).

The "Digital Saras" programme was presented to the trade unions in April. The aim of the programme is to promote the intensive use of digital technology at plants and in production and commercial process, in order to improve reliability and efficiency. In June the process of negotiating the profit-sharing bonus for Group employees, based on productivity and profitability parameters, was completed.

A number of other organisational/operational and technical issues were discussed in the second half of the year including, for example: management of compensatory rest time, reorganisation of the shipping department, personal calls by a shift worker, multifunctional use of plants and other miscellaneous matters.

Worthy of note was the joint investment by the Company and the trade union organisations which, also with the support of an important external contribution, devoted resources and energy to studying suitable methods and models that could be used to develop a relationship model based on problem solving, to enhance, insofar as is possible, the expectations of and expected contribution by the workforce in view of the changes dictated by the competitive scenario of reference.

Training and development of human resources

In addition to standard topics and compliance-related issues, HSE training was mainly to support the extension of the BBS (Behaviour Based Safety) project. Training, based on reinforcing safe behaviour at work, was provided to staff who had not previously been involved.

43,000

total training hours

2017 Saras + Sarlux

After deciding to obtain UNI EN ISO 50001:2011 certification for its Energy Management System, all employees at the Sarlux plant received training on the objectives and principles of the system, with a view to fostering their involvement in its implementation.

The training programme that accompanied the multi-year investment plan was completed during the year. The aim of the course, for Project Managers and other company functions involved in the process, was to improve their ability to plan, implement and manage investments, also in view of the substantial nature of the investments envisaged under the plan. At the end of the training programme, which involved more than 100 people, a follow-up session was held to teach them how to apply the lessons learnt.

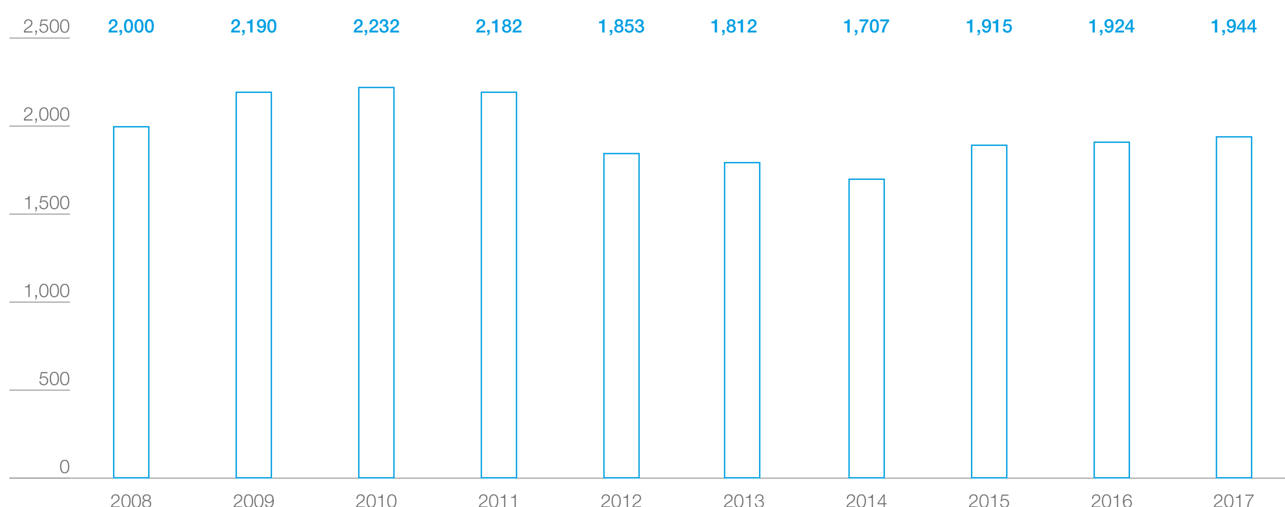
Another important area of training was that provided to operations personnel following the delivery of new constructions as a result of investments. This training involved 418 people for some 1300 hours of training.

As regards operations personnel, the pilot edition of an important training scheme for production plant foremen has come to an end. The pilot scheme involved the Heads of Operations and Operations Supervisors as sponsors and in the first months of 2018 it will be extended to all staff concerned. The aim of this project is to develop and enhance management skills, also by increasing knowledge about reference market scenarios, including changes as a consequence of the #digitalSaras project.

More generally, a number of training courses were held to support the #digitalSaras project. Their aim was to foster a culture that can facilitate the ongoing digitalisation process, disseminate knowledge about Agile project management and provide the technical and specialist skills that are essential in order to implement pilot projects and for the subsequent industrial use of technological solutions.

A new edition of the training course for the qualification of Maintenance personnel in accordance with European Standard UNI EN 15628 was held.

Development activities continued throughout the year for the purpose of identifying, assessing and developing a pool of young people with high potential. The programme is mainly focused on the management of generational change, which can be achieved by putting prop-



erly structured and well maintained talent management systems in place.

The activities involved a pool of resources selected on the basis of assessments, who followed dedicated training paths and individual coaching, in addition to leadership skill development workshops.

Internal communication

In order to share values, strategies and objectives, disseminate culture and foster employees' involvement in the attainment of business goals, several internal communication and change management initiatives were carried out during the year.

Ongoing processes and strategic projects were accompanied by meetings and presentations in order to directly involve the workforce. To enhance the effectiveness of communications, and optimise the use of resources, two new digital platforms were launched during the year: the online newsletter visBreaking News and the creation of an online company community.

Internal communication activities regarded the #digitalSaras project, in order to inform employees about its aims and other ongoing projects and to accompany the change of mentality that is needed for digital transformation to be a success. Numerous meetings for sharing ideas, special pages in visBreaking News, a dedicated intranet area, a video shown on the monitor network and a new idea-gathering campaign to accompany the technology transformation and change of mentality were all part of a structured plan to foster maximum involvement in the Group's strategic change programme.

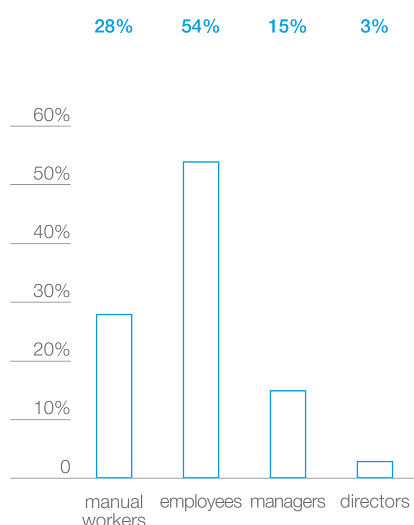
As in previous years, the most important initiatives in the fields of health, safety and the environment were all extensively covered in the online and printed versions of the newsletter. These included, for example, the application of the BBS protocol, revision of the major-accident prevention policy, the commitment to reducing odorous emissions.

The Group also carried out a multichannel communication campaign (intranet, company newsletter, email, posters) to accompany its adoption of the Energy Management System (EMS) and to mark the issue of the Sarlux Energy Policy, aimed at further improving employees' awareness of energy efficiency and of how they are all responsible for implementing and maintaining the EMS.

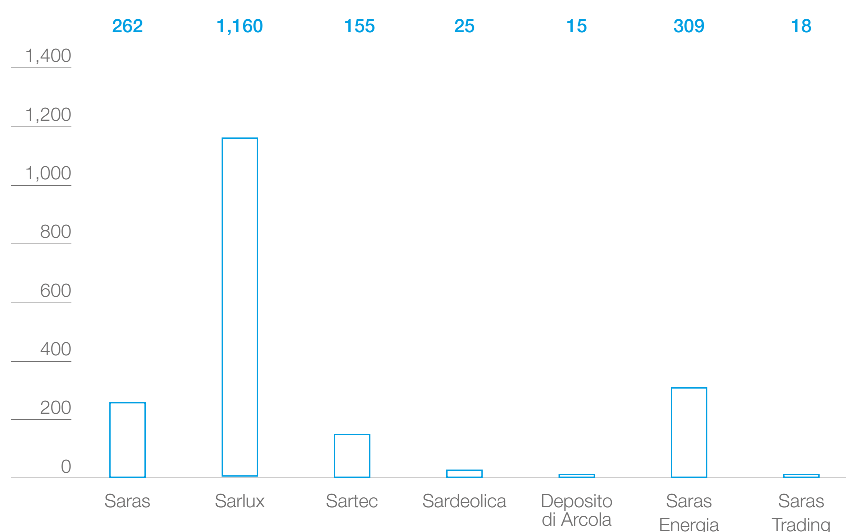
The Group's Code of Ethics was widely distributed, through publication on the company intranet network and by means of individual emails sent to employees. The aim was to raise awareness and disseminate the consistent and substantial application of the principles and rules set forth therein.

The Group continued to address the issues of transparency and potential

SARAS GROUP: POPULATION BANDS



WORKFORCE DISTRIBUTION BY COMPANY



conflicts of interest with another round of meetings to raise awareness and provide opportunities for discussion, for employees for whom such issues are of particular relevance.

Remuneration policy

Management pay components

The gross annual fixed remuneration refers to the Contract for Managers of Companies Producing Goods and Services (National Industry Managers Contract). This pay may be supplemented by additional benefits and a variable component. The variable component is established with reference to the strategic objectives and financial results according to an MBO (Management By Objectives) system.

The long-term incentive plan for management of the Saras Group (Stock Grant Plan 2016/2018), approved by the Shareholders' Meeting of Saras on 22 April 2016, was approved in 2017. Details of the plan are provided in a later section of this Report on Operations.

Non-management staff pay components

The gross annual fixed pay for non-management staff also refers to the "National Collective Labour Agreement" (Energy and Oil National Collective Labour Agreement and Metalworkers National Collective Labour Agreement, where applicable) and supplementary second-level agreements in force.

This pay may be supplemented by any benefits and by variable components including, specifically with reference to middle managers, the adoption of MBO systems linked to the achievement of strategic objectives and operating results.

Disclosure regarding any ongoing judicial proceedings

There were no judicial proceedings involving Group companies in 2017.

HEALTH, ENVIRONMENT AND SAFETY

A constantly improving picture

Generating energy in a safe and reliable way is one of the principles that guide our strategic decisions. Improving reliability and continuity in operations and at the same time guaranteeing territorial and environmental protection is a priority of the company. In particular, activities to protect the health and safety of all those who work directly and indirectly for the Saras Group are of vital concern.

Our company's continued commitment has made it possible to significantly reduce the impact of production activities on the environment. In 2017 the constant improvement in environmental performance was confirmed. This is the result of the consolidation of management activities at the plants. A detailed and accurate overview of all the environmental aspects that directly or indirectly affect the environment within and outside the Sarroch plant, is given in the annual "Environmental Statement", drafted as required by the EMAS regulation.

During the year, activities to monitor all environmental aspects relating to air, water and soil continued. The emissions data for 2017 highlight the improvements that have been achieved thanks to the investments made and management and plant optimisations. Small fluctuations, however, can be seen from year to year, which relate to plant adaptations and extraordinary maintenance. The improvement in environmental metrics is due to a series of technical and management measures put in place, which have gradually equipped the refinery with more efficient technology and resources in terms of production and respect for the environment. Sulphur dioxide (SO_2) emissions confirmed the trend of previous years and the SO_2 production index, which (since 2015) also takes emissions from the Northern Plants into account, was in the range of 0.26 ÷ 0.28 (tonnes of SO_2/1000 from processing) that, compared with the average trend of recent years, is in line with that recorded in the past for the sole contribution of SO_2 emissions due to the Southern Plants, thus confirming the trend of improvement. This improved result was achieved chiefly due to the entry into service in December 2008 of the tail-gas treatment and sulphur recovery unit, which enables emissions to be reduced. It has performed very well in recent years. Investment in environment and safety is a key part of the Saras Group's growth strategy.

In this context, issues such as energy-saving culture and environmental sustainability, which are not new to the Company or the Group, have become even more topical in the last few years. In particular, in the area of Health, Safety and Environment (HSE), the company has, over the last five years, implemented environmental protection measures, achieved improvements in energy efficiency with a reduction in the fuel burned (and therefore emissions) and the activities to protect the water tables continued with paving operations on the tank basins and the construction of double bottoms on the tanks.

Thanks to its environmental protection policy, again in 2017, no situations arose in which the company was held responsible for damage caused to the environment, and neither was it subject to fines or penalties for environmental offences or damage. The environmental protection policies also require continuous investment in staff training, which involves all workers at the refinery (including those of contractor companies) and other Group companies in a process aimed at creating a high degree of awareness of environmental issues. In fact, even the most advanced technological systems must be supported by careful management and control by all those involved in the production cycle.

AIA: Integrated Environmental Authorisation permit

The process of obtaining the Integrated Environmental Authorisation (AIA) permit began in early 2007, and was completed in April 2009. Saras was the first refinery in Italy to obtain the AIA permit, which represents a process of improvement in the technical and structural characteristics of the plants and the production site, thereby minimising the impact of production activities on all environmental matrices. The AIA permit, issued by the Environment Ministry, replaces all other authorisations; it lasts for eight years (conditional on maintaining EMAS (EU Eco-Management and Audit Scheme) registration). This further recognition covers the basic concepts of the Environmental Code, which regards all the elements (air, water, soil, visual impact, etc.) as part of a whole. It is the result of a process that led to the company obtaining Environmental Certification ISO 14001 in 2004, which was subsequently confirmed in 2007, 2010, 2013 and 2016. It is also worthy of note that, following the company reorganisation of the previous year, with effect from 1 July 2013, the AIA permit was transferred from Saras SpA to Sarlux Srl, a Group company that now manages all the production activities of the Sarroch site. Similarly, the ISO 14001 certification was also transferred from Saras SpA to Sarlux Srl on that same date. The procedure to combine the two existing AIA permits Refinery+IGCC and Northern Plants (formerly Versalis) submitted by Sarlux was approved in December 2015.

The new AIA decree (DM 0000286 of 21/12/2015), issued for all the activities Sarlux performs in the Sarroch facility in the first days of 2016, also contains the exemptions for the Large Combustion Plants (LCP) issued under Legislative Decree 46/2014 and a single Monitoring and Control Plan. In April 2016, with Legislative Decree 46/2014, the Ministry of the Environment provided for a review of the Integrated Environmental Authorisation permit issued to Sarlux in December 2015 to operate the complex IGCC refinery and Northern Plants, to adapt the measures to the conclusions on Best Available Techniques (BAT) relating to the refining sector (Decision 2014/738/EU). By July, Sarlux sent, as required, documenta-

Safety is our energy

"We want to see ourselves and be recognised as an industrial entity made of people who live and promote the culture of safety in our daily actions."

SO_2 PRODUCTION INDEX

CO_2 PRODUCTION INDEX

tion on specific guidelines and models adopted by the Ministry, thereby initiating the review proceeding. The AIA Decree was further updated, with Decree No. 359 of 5 December 2016, to extend the exemptions for Large Combustion Plants issued pursuant to the provisions of Legislative Decree 46/2014 until the end of the review procedure.

Sarlux obtained the renewal of the AIA (Integrated Environmental Authorisation permit) in 2017. The plant, which is owned and run by the Sarlux Srl subsidiary and which includes the Southern Plants (Refinery and IGCC) and Northern Plants (Chemical plants) was thus authorised to operate under Ministerial Decree 0000263 of 11 October 2017, issued by the Italian Ministry of the Environment.

The following activities, which fall within the scope of Annex 8 and Annex 12 to part two of Legislative Decree 152/2006 as subsequently amended, are carried out at the plant:

- Category IPPC 1.1: Combustion of fuels in installations with a total rated thermal input of 50 MW or more;
- Category IPPC 1.2: Refining of mineral oil and gas;
- Category IPPC 4.1: Chemical plant for production of basic organic chemicals

The monitoring and control activities stipulated in the AIA permit continued on a regular basis during 2017.

EMAS registration

In May, the company successfully completed the annual validation visit for the 2017 Environmental Statement (performance data revised as at 31 December 2016) which assesses the activities that are carried out to ensure their environmental sustainability within the region. Following the validation visit, the "Environmental Statement rev. 1 June 2017" was published on the http://www.sarlux.saras.it/it/emas/ website.

The Environmental Statement provides a detailed and accurate picture of all the aspects that relate to the production site's internal and external environments, and illustrates to the public all the activities that Sarlux performs, the environmental aspects (directly and indirectly related thereto) and the environmental objectives set by the Company to maintain its EMAS Registration. The attainment of these objectives involves many different levels and functions of Sarlux and significant investment in terms of technical and financial resources.

Again, with a view to improving transparency, the PRTR (Pollutant Release and Transfer Register) was regularly updated throughout the year with the site's main environmental data. This information is sent to the Italian Environment Ministry, which in turn sends it to the European Commission. Specifically, the information concerned levels of water and air emissions based on various parameters relating to the activities carried out.

The workplace health and safety management system

In 2017, within the scope of the project to continually improve safety management, the company continued to promote the culture of safety through internal com-

munications projects initiated in 2010. The most significant were:

B-BS (Behaviour-Based Safety) – Completed extension of the protocol in all operating areas of the plant.

The BBS project is designed to ensure the constant adoption of safe behaviour and is based on motivation, by cultivating shared safety culture values among the workers concerned, so that they see the workplace as somewhere where everyone – managers, foremen, labourers – produce the same consequences for the same behaviour that is observed. Of these consequences, positive and corrective feedback, reinforcements, rewards and encouragement take precedence over adverse consequences such as sanctions or verbal reprimands.

The BBS is a method that can guarantee excellent results as it allows unsafe actions and their effects to be measured scientifically, so that they can be remedied before they become dangerous.

It is based on observation and on the identification of safe behaviour by people as they carry out their routine work tasks. Observations are reciprocal and are followed by delivery of feedback. Each observation is guided by a check-list with the behaviours to be observed; the check-list is a dynamic instrument, defined at the planning stage, and is revised as observed safe behaviours become well-established. Each behaviour that is observed is then registered in the system to enable constant monitoring of trends. Attention is focused on unsafe behaviours, for which department heads set targets and establish time-frames for improvement during the course of regular meetings with the working groups.

With the extension of the BBS protocol to all refining areas (Southern and Northern Plants), other safety performance monitoring systems have gradually been replaced so that now, for the first time, we have a single tool for managing, measuring and improving all aspects of health and safety.

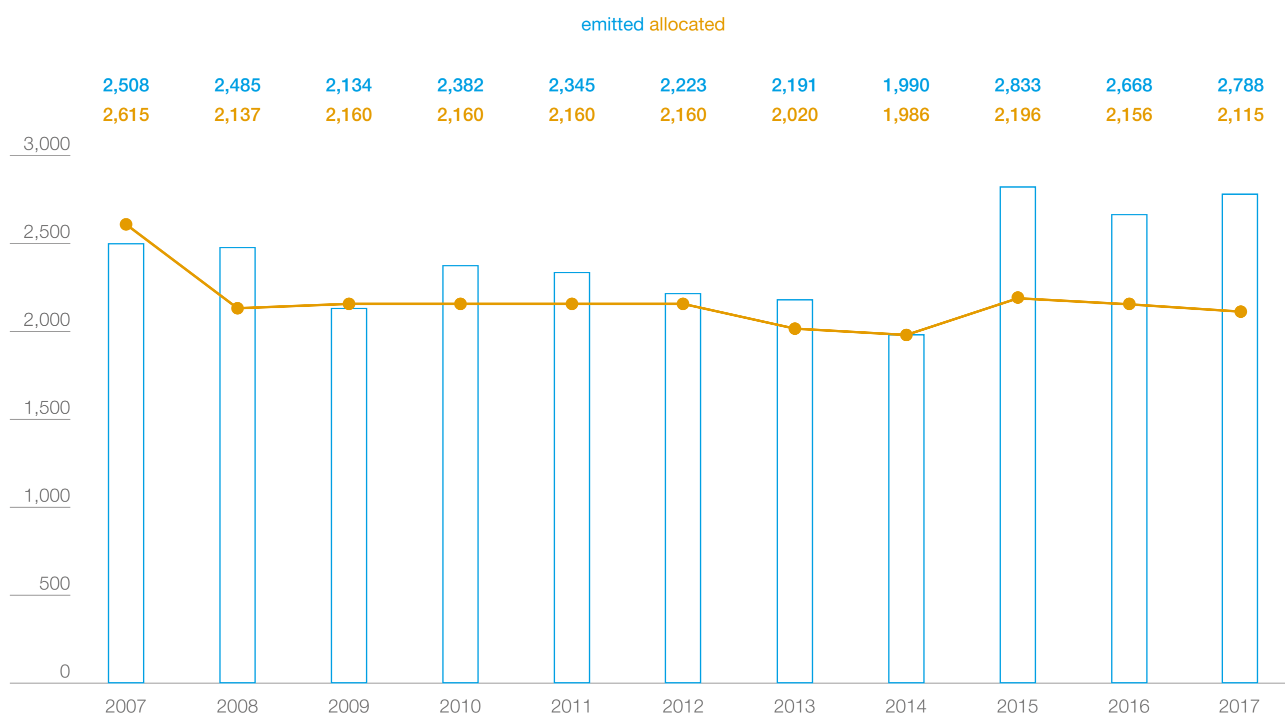
The results of the measurements of the behaviours observed are more than satisfactory. In detail, in 2017 16,940 observations were performed, compared to 6,230 in 2016 and the percentage of positive behaviours observed was 98% of the total.

Audit of HSMS and EMS management systems – 17 internal audits were planned and carried out in 2017.

Site inspections – 205 audits were conducted to directly monitor the activities of 44 companies and 700 workers.

Analysis of accidents and near misses – Near misses are events related to work activities, with the potential to produce severe damage to persons and/or things. Once again, in 2017, the aim was to monitor the trend in near misses in order to increase the level of perception of the risk for staff working at the site, by classifying the severity of near misses according to the accident scenario, the consequences (magnitude) and

REFINERY CO_2 EMISSIONS (TONS/YEAR)



* Emissions refer to the Refinery and Northern Plants.

possible frequency of the occurrence of the event. 61 near misses were reported in 2017, of which 9 were classified as serious.

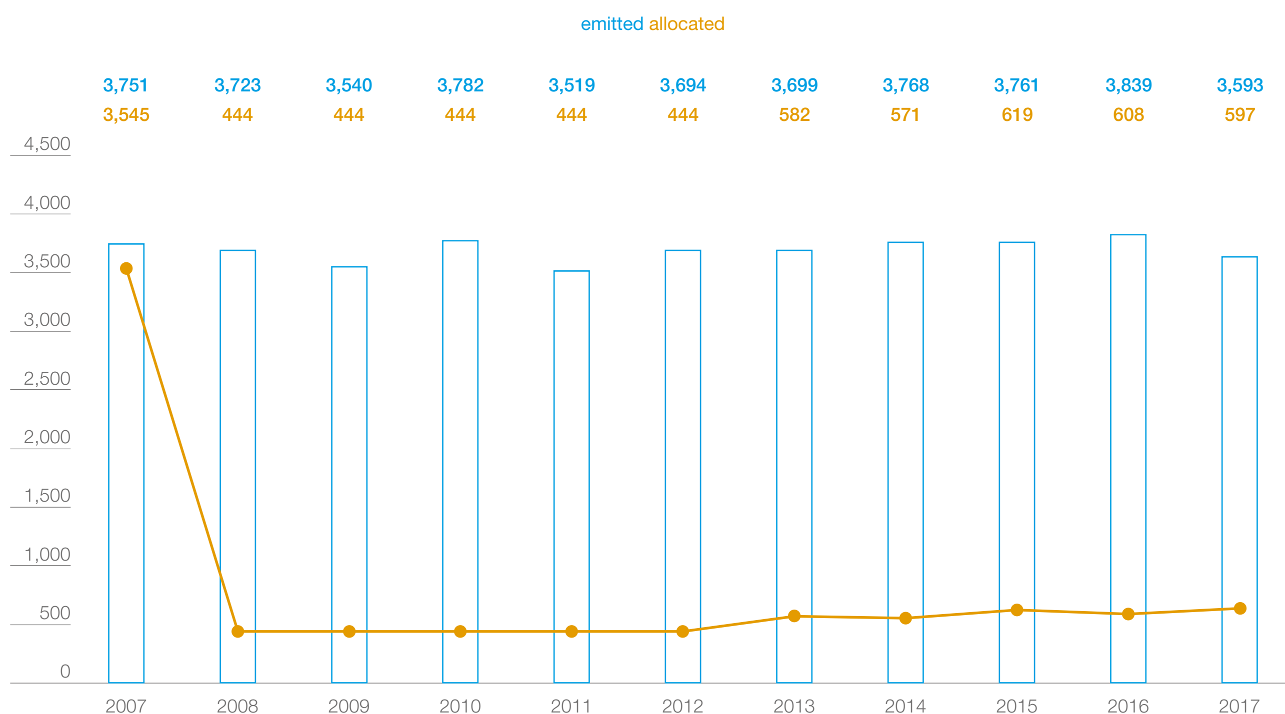
The near misses classified as serious were analysed by following the same accidents procedure with a level 1 and 2 analysis through which root causes, contributors and prevention and improvement actions are identified.

To promote a culture of safety, a process has been implemented over the last few years that has enabled the Group to obtain some important certifications. In 2007, Saras obtained certification for its Health and Safety at Work System based on the OHSAS 18001:2007 standard. In 2008, it updated the "Organisation, Management and Control Model", pursuant to Legislative Decree 231/01, to comply with the provisions of Law 123/07 and the subsequent Legislative Decree 81/08, on the protection of health and safety in the work place, and this was updated again in 2011. The renewal inspection of its Health and Safety at Work System based on the OHSAS 18001:2007 standard was carried out successfully in 2017. Saras also played an active part in drafting the "Guidelines for an Integrated Health, Safety and Environmental Management System", based on the agreement signed on 28 June 2007 by INAIL, ASIEP (now Confindustria Energia) and trade union organisations, which establish a reference framework for the implementation of the integrated health, safety and environmental management systems in Italy, together with the same parities that helped update them. Against this backdrop, Saras plays an active role, together with Confindustria Energia, INAIL and union organisations, in conducting audits to check the application of the "Guidelines for an Integrated Health, Safety and Environmental Management System" mentioned above. The Saras Group promotes a culture of safety at all corporate levels through training staff, sharing information and checking the degree of effectiveness of the activities pursued. Disseminating the culture of safety translates into continuous training and the creation of working conditions aimed at gradually reducing emergencies and accidents involving Saras Group staff and the employees of contractor companies. In 2017, all training measures relating to specific roles and positions continued, as did ongoing training on "Safety and the Environment".

Greenhouse gas emissions

The Saras Group falls within the scope of the European Emissions Trading Scheme Directive (ETS) due to the two activities carried out by its subsidiary Sarlux Srl at the Sarroch site, namely the refining segment and the electricity generation segment (IGCC plant). The ETS Directive was introduced across Europe to control and reduce carbon dioxide emissions as part of the battle against the greenhouse effect and consequent climate change. Carbon dioxide emissions do not have a direct impact at local level, particularly in terms of air quality around the site, but are connected to global phenomena. The Emissions Trading Directive was introduced in 2005 to help member states comply with the requirements of the Kyoto Protocol. It works by assigning an emissions allowance to each individual plant falling within the

IGCC CO_2 EMISSIONS (KTON/YEAR)



* As of 2013, the National Allocation Plan of CO_2 Allowances provides a single allocation for the entire Sarroch site (Refinery+IGCC)

scope of the Directive; this allowance is set by the Member State concerned under a "National Allocation Plan". The ETS mechanism also anticipates that surplus allowances may be traded and/or stockpiled, and any deficit must instead be covered by purchasing emissions allowances on the market. The allowance is assigned for each of the reference periods established by the Directive. The first reference period was the three-year period between 2005 and 2007, the second related to the five-year period between 2008 and 2012, while the current period relates to 2013-2020. In the second period of application of the ETS Directive, allowances were more stringent, based on the objectives set out in the Kyoto Protocol. The third period (eight years), which started in 2013, has also led to a further annual reduction in the allocation of emissions allowances. As regards the request for additional allowances presented by Sarlux subsequent to the purchase of the "Northern Plants" (former Varsalis), considering the specific nature of the operation (partial purchase of the facility), the proceedings for the reassignment of the allowances are still in progress.

The Emissions Trading Scheme Register, which is available for consultation, records both the allowances assigned and the annual CO_2 emissions in Italy.

The subsidiary Saras has been allocated a single position based on the total emissions from all its operations at the Sarroch site. Sarlux keeps a register that records, calculates and monitors CO_2 emissions. The system is certified by accredited independent bodies in accordance with European guidelines and was updated subsequent to the purchase of the Northern Plants.

Caring for the sea

We are conscious that we must preserve and limit any type of change to the environment. For this reason, we have for years had very stringent criteria relating to the transport of oil and refined products by sea. With effect from 2009, only latest-generation ships have been used. From this year, 100% of the ships used have been "twin-hulled", in anticipation of current legislation on maritime traffic. Measures to protect the marine environment also include minute-by-minute monitoring of oil tankers both arriving at and departing from the Sarroch terminals. In this regard, vetting inspections are regularly carried out at other ports by trusted Saras personnel, in accordance with international criteria, as are on-the-spot pre-mooring inspections.

SOCIAL RESPONSIBILITY AND ACTIVITIES WITH THE COMMUNITY

Relations with the community

Every company starts out and grows in a specific local context and the relationship it establishes with that community characterises the future growth of both the company and the local community.

The Saras Group, now a major international organisation, was originally founded and expanded in Sardinia, an island with a strong identity and for which it has great respect.

That is why, for more than 50 years, Saras has been actively engaged in initiatives and projects to support the social fabric, history and traditions of this region, with a special focus on young people and the needs of the community.

The Company has defined an "Our stakeholders" policy, setting out its approach to managing relations with the local communities, and recognises the local community and the regions of reference as strategically important stakeholders.

Saras promotes social projects capable of creating value for the community. After conducting a preliminary assessment of the economic aspects and consistency with the corporate purpose, the choice falls on projects considered to have the largest impact and value for the community.

In recent years, the Group has adopted specific guidelines with regard to the scope of its activities, based on two main principles: the social context, in terms of the people who deserve support – especially young people, the elderly and less affluent members of society – and the physical territory, meaning the area covered by the Group's actions.
One objective that is especially important for Saras is the promotion of a business culture and demonstrating that "doing business" in Sardinia is still possible. To that end, Saras supports educational activities at schools and has ongoing relations with the university, aimed at fostering social development that cannot take place without employment, sustainability and economic growth, in a region weakened by depopulation, especially with many young people moving away.

Saras for Schools

Through its Group companies, Saras is involved in several school-work projects. Between 2013 and 2017 more than 500 students entered the Sarroch industrial site (under various projects) to get a closer look at how a large company works. They attended lessons addressing industrial topics such as safety, the environment, production processes, ICT, corporate structure, often with simulations of business situations, and learned some key concepts to help them do well at job interviews.

Several students visited the Group's labs and plants, gaining hands-on experience of practical applications and attending lessons on specific subjects, either directly at the company or at school.

Some were offered company internships, as an opportunity to gain further experience.

"RAIn – Raccontami l'Avvenire e l'Innovazione" (Tell me about the Future and Innovation) is a competition for secondary school pupils, through which the Company aims to encourage young people to think about the future and new technology by making a video about innovation.

Saras for Universities

Technical seminars are held regularly, under the framework of the memorandum of understanding with the University of Cagliari, as a useful part of the training of future engineers. In 2017 Saras contributed to scholarships for the best Chemical Engineering graduates, under a project conceived by the Italian Chemical Engineering Society.

Saras for the community

Saras also supports the community through its numerous sponsorships of sports associations, both at amateur and professional level. Clubs like Sarroch Polisportiva Volley, the Gioventù Sarroch football team and the Amatori Capoterra rugby team represent the community and the Group is proud to be able to help them grow and continue to attract promising young sportsmen and women.
Saras is also among the partners of the Dinamo Banco di Sardegna basketball team and of the Cagliari Football Academy. The latter was established as a point of reference for children playing football in Sardinia, to stimulate personal growth as well as technical skills and create a virtuous cycle where sport fosters individual growth.
Saras organised "Sport sicuro a Sarroch" (Safe sports at Sarroch) to communicate the importance of safety, even in sports. The aim of the event was to raise awareness about the need for athletes to have check-ups before practising sports. The event ended with the donation of three automated external defibrillators to be installed at sports facilities in Sarroch.
Lastly, sports to convey important messages was the driving force behind "Giganti al cubo, energia contro il bullismo" (Giants cubed, energy to combat bullying), a one-day event to raise awareness about cyber bullying, with the participation of top basketball players from the Dinamo Sassari team and the Cagliari Police Force.

Community and safety

Saras shares its expertise in the field of safety at the workplace with many local firms, holding HSE training courses with a view to disseminating an appropriate industrial culture alert to these fundamental principles.
Saras also organises courses on the basic principles of safety, in partnership with volunteers from fire-fighting units, for children and young people at schools in the region.

RISK ANALYSIS

Saras bases its risk management policy on the identification, assessment, and possible reduction or elimination of the principal risks associated with the Group's objectives, with reference to the strategic, operational and financial areas.

The principal risks are reported to and discussed by the Group's top management, to create the prerequisites for their management and also to assess the acceptable residual risk.

The management of the risks in company processes is based on the principle by which the operational or financial risk is managed by the person responsible for the related process, based on the indications of top management, while the control function measures and controls the level of exposure to risk and the results of the actions to reduce such risk.

To manage financial risks, the Saras Group policy includes the use of derivatives, only for the purposes of cover and without resorting to complex structures.

Financial risks

Exchange rate risk

The Group's oil business is structurally exposed to fluctuations in exchange rates, because the reference prices for the procurement of crude oil and for the sale of the vast majority of refined oil products are linked to the US dollar. To reduce both the exchange rate risk for transactions that will be executed in the future, and the risk originating from payables and receivables expressed in currencies other than the functional currency, Saras also uses derivative instruments for hedging purposes when deemed appropriate.

Interest rate risk

Loans at variable interest rates expose the Group to the risk of variations in results and in cash flows, due to interest payments. Loans at fixed interest rates expose the Group to the risk of variation of the fair value of the loans received. The main existing loan contracts are stipulated in part at variable market rates and in part at fixed rates. The Saras Group also uses derivative instruments to reduce the risk of variations in results and in cash flows deriving from interest.

Credit risk

The refining sector represents the Group's reference market and it is principally made up of multinational companies operating in the oil sector. Transactions executed are generally settled very quickly and are often guaranteed by primary credit institutions. Sales in the retail and wholesale markets are small on an individual basis; nonetheless, also these sales are usually guaranteed or insured.

Liquidity risk

The Group finances its activities both through the cash flows generated by operating activities and through the use of externally-sourced financing, and it is therefore exposed to liquidity risk, comprising the capacity to source adequate lines of credit as well as fulfil contractual obligations deriving from the financing contracts entered into.

The capacity for self-financing, together with the low level of debt, leads us to consider that the liquidity risk is moderate.

Other risks

Price fluctuation risk

The results of Saras Group are influenced by the trend in oil prices and especially by the effects that this trend has on refining margins (represented by the difference between the prices of the oil products generated by the refining process and the price of the raw materials, principally crude oil). In addition, to carry out production, the Saras Group is required to maintain adequate inventories of crude oil and finished products, and the value of these inventories is subject to the fluctuations of market prices.

Also subject to fluctuations is the selling price of electricity, produced and sold by our subsidiaries, as well as the prices of green certificates and emissions credits.

The risk of price fluctuations and of the related financial flows is closely linked to the very nature of the business and it can be only partly mitigated through the use of appropriate risk management policies, including agreements to refine oil for third parties, at partially pre-set prices. To mitigate the risks deriving from price fluctuations, the Group also takes out derivatives on commodities for the purpose of hedging.

Risk related to the procurement of crude oil

A significant portion of the crude oil refined by Saras originates from countries exposed to a higher level of political, social and economic uncertainty than other countries: changes in legislation, political rulings, economic stability and social unrest could have a negative impact on the commercial relationships between Saras and those countries, with potential negative effects on the Group's economic and financial position.

Risks of interruption of production

The activity of the Saras Group depends heavily on its refinery located in Sardinia, and on the contiguous IGCC plant. This activity is subject to the risks of accident and of interruption due to non-scheduled plant shut-downs.

Saras believes that the complexity and modularity of its systems limit the negative effects of unscheduled shut-downs and that the safety plans in place (which are continuously improved) reduce any risks of accident to a minimum: in addition Saras has a major programme of insurance cover in place to offset such risks. However, under certain circumstances, this programme may not be sufficient to prevent the Group from bearing costs in the event of accidents and/or interruption to production.

Environmental risk

The activities of the Saras Group are regulated by many European, national, regional and local laws regarding the environment.

The highest priority of the Saras Group is to conduct its activity with the utmost respect for the requirements of environmental legislation. The risk of environmental responsibility is, however, inherent in our activity, and it is not possible to say with certainty that new legislation will not impose further costs in the future.

Regulatory risk

Owing to the characteristics of the business carried out by the Group, it is conditioned by the legislation of the countries in which it operates. With regard to this, Saras is committed to a continuous activity of monitoring and constructive dialogue with national and local institutions aimed at researching joint activities and promptly evaluating the applicable normative amendments, acting on minimising the economic impact deriving from them. In this context, the most significant aspects of the main regulatory developments relate to:

- Regulations concerning the reduction of national emissions of certain atmospheric pollutants and the relative impact on the limits indicated in the current AIA permit.
- The view of the European Commission and the AAEG implementing documents in relation to the recognition of the Sarlux subsidiary as an energy-consuming enterprise.
- Regulatory dispositions relating to energy efficiency certificates and their consequences for the GSE.
- Reference regulations relating to the fact that the Sarlux Srl subsidiary sells the electricity generated to GSE (the Italian National Grid Operator) at the conditions specified by the legislation in force (law No. 9/1991, law No. 10/1991, CIP resolution No. 6/92 and subsequent modifications, law No. 481/1995) which remunerate the electricity produced by plants powered by renewable and assimilated sources based on the costs avoided and time-limited incentives, linked to the actual production.

Dependencies on third parties

The IGCC plant, owned by the Sarlux Srl subsidiary, depends on raw materials derived from crude oil, supplied by Saras, and on oxygen supplied by Air Liquide Italia. Should these supplies fail, Sarlux would have to locate alternative sources, which the company may not be able to find, or to source at similar economic conditions.

Protection of Personal Data

Pursuant to the provisions of Legislative Decree 196 of 30 June 2003 "Norms related to the protection of sensitive personal data", the Group adopted all minimum safety measures required in Annex B to such Decree (Article 34); in particular, the Safety Document (DPS), as required by item 19 of the above mentioned Annex B, was updated on 31 March 2012.

OTHER INFORMATION

Treasury shares
In the course of 2017, Saras SpA has not bought nor sold any treasury shares. As a consequence of the above, at 31 December 2017 Saras SpA held 14,989,854 treasury shares, equal to 1.576% of share capital.

Stock Grant Plans

On 22 April 2016, the Shareholders' Meeting approved the "Long-term incentive plan for the management of the Saras Group" (the "2016-2018 Stock Grant Plan"), assigning the Board of Directors all powers necessary and appropriate to implement the Plan.

The recipients of the plan have been individually identified as follows:

- managers with strategic responsibilities within the Company;
- directors of Italian and/or foreign subsidiaries of the Company;
- other senior people in the Group, including those with an independent employment contract.

Each beneficiary is assigned the right to receive free shares after achieving performance objectives determined in relation to:

- The relative positioning of the Total Shareholder Return of Saras compared to the TSR of a group of industrial companies that are part of the FTSE Italia Mid Cap. For the purpose of calculating the TSR, for each of the three years of performance, the share price at the start date of the year is equal to the average price of the share, taking the daily closing value in the three months prior to this date as a reference (1 October – 31 December); the share price at the date of the end of the year, equal to the mean value of the share, taking the daily closing value in the three months prior to this date as a reference (1 October – 31 December);
- The positioning of the margin, expressed in \$/bl and compared in terms of absolute distance from the EMC Benchmark margin.

The maximum number of shares covered by the Plan is 6,500,000. Shares are to be delivered within six months of the end of the Performance Period, and the Beneficiary undertakes not to sell, transfer, dispose of or subject to any restriction a number of Shares equivalent to 20% of the shares delivered for a period of 24 months from the delivery date.

Transactions with related parties
At the end of 2017, the effect on Saras Group Balance Sheet and Income Statement, deriving from transactions or positions with related parties, was not significant. For further details please refer to the Notes to the Consolidated Financial Statements, chapter 7.3 "Transactions with Related Parties".

Use of financial instruments
Details can be found in the Notes to the Consolidated Financial Statements, chapter 7.5.3 "Additional information".

Research and Development
In 2017 Saras did not undertake meaningful research and development activities, therefore no significant

costs were capitalised or accounted for in the Income Statement. For further details please refer to the Notes to the Consolidated Financial Statements, chapter 5.2.2 "Intangible Assets".

Information by segment and geographical area
Information on the breakdown of purchases and sales by business segment and geographical area is provided in chapter 4

"Information by business segment and geographical area" of the Notes to the Consolidated Financial Statements.

Non-recurring and unusual transactions
We highlight that during the year no significant transactions were carried out and no open positions originated from any non-recurring or unusual transactions.

Information on shareholdings held by members of the Board of Directors, Statutory Auditors and Senior Management
Details are available in the Notes to the Separate Financial Statements of Saras SpA, chapter 7.5.2 "Shareholdings held by members of the Board of Directors, Statutory Auditors, General Manager and Senior Management with strategic responsibilities".

Adoption of the fiscal consolidation
Details are available in chapter 3.2 "Summary of accounting standards and policies" in the Notes to the Consolidated Financial Statements, in paragraph X "Taxes".

Reconciliation between Group Consolidated Net Result and Shareholders' Equity
The reconciliation between the Consolidated Net Result and the Group Equity, and those of the Parent Company is detailed in the table below.

EUR thousand	Result	Equity
As per the Financial Statements of Saras SpA as at 31 December 2017	**207,062**	**607,377**
Differences between book value and Equity as at 31 December 2017 of shareholdings valued at cost in the Financial Statements of Saras SpA	32,497	458,305
Corrections made during consolidation	1,277	6,614
As per the Group Consolidated Financial Statements as at 31 December 2017	**240,836**	**1,072,296**

MAIN EVENTS AFTER THE END OF 2017

On 26 February 2018 the Chairman of the Board of Directors, Gian Marco Moratti, passed away. The son of Angelo Moratti, who founded Saras, Gian Marco was CEO until 1981 when he became Chairman.

CONSOLIDATED FINANCIAL STATEMENTS OF THE SARAS GROUP AT 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

Thousands of euros	(1)	(2)	31/12/2017	31/12/2016
ASSETS				
Current assets	**5.1**		**1,960,049**	**1,689,200**
Cash and cash equivalents	5.1.1	A	421,525	359,175
of which with related parties:			20	2,340
Other financial assets	5.1.2	B	98,291	120,662
Trade receivables	5.1.3	C	391,400	423,621
of which with related parties:			66	66
Inventories	5.1.4	D	875,269	621,894
Current tax assets	5.1.5	E	24,562	36,402
Other assets	5.1.6	F	149,002	127,446
Non-current assets	**5.2**		**1,197,112**	**1,205,184**
Property, plant and equipment	5.2.1	H,I	1,020,210	964,263
Intangible assets	5.2.2	J	152,691	194,894
Other investments	5.2.3	L	502	502
Deferred tax assets	5.2.4	X	15,969	39,775
Other financial assets	5.2.5	M	7,740	5,750
Total assets			**3,157,161**	**2,894,384**
LIABILITIES AND EQUITY				
Current liabilities	**5.3**		**1,530,482**	**1,423,241**
Short-term financial liabilities	5.3.1	R	183,068	203,377
of which with related parties:			0	20,000
Trade and other payables	5.3.2	R	1,150,284	1,044,879
Current tax liabilities	5.3.3	X	120,366	102,812
Other liabilities	5.3.4	R	76,764	72,173
Non-current liabilities	**5.4**		**554,383**	**548,416**
Long-term financial liabilities	5.4.1	R	257,140	183,438
Provisions for risks and charges	5.4.2	P, AA	122,085	102,455
Provisions for employee benefits	5.4.3	Q	10,250	10,541
Deferred tax liabilities	5.4.4	X	4,848	4,719
Other liabilities	5.4.5	R	160,060	247,263
Total liabilities			**2,084,865**	**1,971,657**
EQUITY	**5.5**	**N,O,W**		
Share capital			54,630	54,630
Legal reserve			10,926	10,926
Other reserves			765,904	660,841
Net result			240,836	196,330
Total equity attributable to the parent company			**1,072,296**	**922,727**
Third-party minority interests			0	0
Total equity			**1,072,296**	**922,727**
Total liabilities and equity			**3,157,161**	**2,894,384**

(1) Please refer to the Notes to the consolidated financial statements, section 5 "Notes on the Statement of Financial Position"

(2) Please refer to the Notes, section 3.4 "Summary of accounting standards and policies"

CONSOLIDATED STATEMENT OF INCOME FOR 2017

Thousands of euros	(1)	(2)	01/01/2017 31/12/2017	of which non-recurring (3)	01/01/2016 31/12/2016	of which non-recurring
Revenues from ordinary operations	6.1.1	S	7,558,401		6,761,962	
Other income	6.1.2	S	128,701		107,845	
of which with related parties:			*91*		*92*	
Total revenue			**7,687,102**		**6,869,807**	***0***
Purchases of raw materials, replacement parts and consumables	6.2.1	T	(6,401,155)		(5,504,814)	
Cost of services and sundry costs	6.2.2	T, AA	(634,660)	*(22,971)*	(578,848)	*(4,209)*
of which with related parties:			*880*		*(1,440)*	
Personnel costs	6.2.3	Q,T	(147,067)		(148,060)	
Amortisation/depreciation and write-downs	6.2.4	H,J	(178,432)		(246,740)	*(20,000)*
Total costs			**(7,361,314)**	**(22,971)**	**(6,478,462)**	***(24,209)***
Operating result			**325,788**	**(22,971)**	**391,345**	***(24,209)***
Net income (charges) from equity investments		K, L				
Financial income	6.3	U	204,257		155,784	
Financial charges	6.3	U	(198,678)	*(7,709)*	(238,767)	
Result before taxes			**331,367**	**(30,680)**	**308,362**	***(24,209)***
Income tax	6.4	X	(90,531)	8,259	(112,032)	(8,136)
Net result			**240,836**	**(22,421)**	**196,330**	***(32,345)***
Net result attributable to:						
Shareholders of the parent company			240,836		196,330	
Third-party minority interests			0		0	
Net earnings per share – base (euro cents)		Z	**25.73**		**21.00**	
Net earnings per share – diluted (euro cents)		Z	**25.73**		**21.00**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2017

Thousands of euros		01/01/2017 31/12/2017	01/01/2016 31/12/2016
Net result (A)		**240,836**	**196,330**
Items that may be reclassified subsequently to profit or loss			
Effect of translation of the financial statements of foreign operations	V	(227)	33
Items that will not be reclassified to profit or loss			
Actuarial effect IAS 19 on employee post-employment benefits	Q, T	751	(230)
Other profit/(loss), net of the fiscal effect (B)		**524**	**(197)**
Total consolidated net result (A + B)		**241,360**	**196,133**
Total consolidated net result attributable to:			
Shareholders of the parent company		241,360	196,133
Third-party minority interests		0	0

(1) Please refer to the Notes to the consolidated financial statements, section 6 "Notes to the Income Statement"

(2) Please refer to the Notes, section 3.4 "Summary of accounting standards and policies"

(3) Non-recurring items refer to an accrual prudently recognised in respect of energy efficiency certificates (TEE)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2017

Thousands of euros	Share Capital	Legal Reserve	Other Reserves	Profit (Loss) Financial year	Total Equity Attributable to the Parent Company	Third-party Minority Interests	Total Equity
Balance as at 31/12/2015	**54,630**	**10,926**	**595,688**	**223,660**	**884,904**	**0**	**884,904**
Period 01/01/2016 – 31/12/2016							
Allocation of profit previous year			223,660	(223,660)	0		0
Distribution of dividends			(159,122)		(159,122)		(159,122)
Reserve for stock option plan			812		812		812
Actuarial effect IAS 19			(230)		(230)		(230)
Conversion effect balances in foreign currency			33		33		33
Net result				196,330	196,330		196,330
Total net result			*33*	*196,330*	*196,363*	*0*	*196,363*
Balance as at 31/12/2016	**54,630**	**10,926**	**660,841**	**196,330**	**922,727**	**0**	**922,727**
Period 01/01/2017 – 31/12/2017							
Allocation of profit previous year			196,330	(196,330)	0		0
Distribution of dividends			(93,601)		(93,601)		(93,601)
Conversion effect balances in foreign currency			(227)		(227)		(227)
Actuarial effect IAS 19			751		751		751
Reserve for stock option plan			1,810		1,810		1,810
Net result				240,836	240,836		240,836
Total net result			*524*	*240,836*	*241,360*		*241,360*
Balance as at 31/12/2017	**54,630**	**10,926**	**765,904**	**240,836**	**1,072,296**	**0**	**1,072,296**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2017

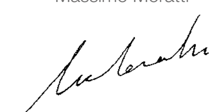
Thousands of euros	(1)	(2)	01/01/2017 31/12/2017	01/01/2016 31/12/2016
A – Initial cash and cash equivalents			**359,175**	**856,843**
B – Cash flow from operating activities				
Net result	5.5		240,836	196,330
Unrealised exchange rate differences on bank current accounts			7,726	(853)
Amortisation/depreciation and impairment losses	6.2.4	K, J	178,432	246,740
Net change in risk provisions	5.4.2	P, AA	19,630	12,029
Net change in provision for employee benefits	5.4.3	Q	(291)	0
Net change in deferred tax liabilities and deferred tax assets	5.2.4 – 5.4.4	X	23,935	81,941
Net interest		U	12,166	18,689
Income tax set aside	6.4	X	66,596	30,091
Change in the fair value of derivatives	5.1.2 – 5.3.1		(1,822)	34,742
Other non-monetary components	5.5		2,334	615
Profit for the year before changes in working capital			**549,542**	**620,324**
(Increase)/Decrease in trade receivables	5.1.3	C	32,221	(162,985)
(Increase)/Decrease in inventories	5.1.4	D	(253,375)	(57,091)
(Increase)/Decrease in trade and other payables	5.3.2	R	105,405	1,439
of which with related parties:			*113*	*43*
Change other current assets	5.1.5 – 5.1.6	F	(9,716)	(6,267)
Change other current liabilities	5.3.3 – 5.3.4	R	(3,645)	(18,803)
Interest received		U	154	653
Interest paid		U	(12,320)	(19,342)
Taxes paid	5.3.2	X	(40,806)	(34,462)
Change other non-current liabilities	5.4.5	R	(87,203)	(48,277)
Total (B)			**280,257**	**275,189**
C – Cash flows used in investing activities				
(Investments) in PPE and intangible assets	5.2.1-5.2.2	H, I	(192,176)	(146,453)
(Increase)/Decrease in other financial assets	5.1.2	B	75,934	5,164
Other non-monetary changes	5.2.1-5.2.2		0	614
Total (C)			**(116,242)**	**(140,675)**
D – Cash flows used in financing activities				
Increase/(decrease) m/l-term financial payables	5.4.1	R	73,702	(402,410)
Increase/(decrease) short-term financial payables	5.3.1	R	(74,040)	(71,503)
Distribution of dividends and treasury share purchases			(93,601)	(159,122)
Total (D)			**(93,939)**	**(633,035)**
E – Cash flows for the year (B+C+D)			**70,076**	**(498,521)**
Unrealised exchange rate differences on bank current accounts			(7,726)	853
F – Final cash and cash equivalents			**421,525**	**359,175**

(1) Please refer to the Notes to the consolidated financial statements, section 5 "Notes on the Statement of Financial Position"

(2) Please refer to the Notes, section 3.4 "Summary of accounting standards and policies"

For the Board of Directors - The Chief Executive Officer

Massimo Moratti



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

1. Introduction

Saras S.p.A, (the "parent company") is a company limited by shares listed on the Milan stock exchange. Its registered office is in Sarroch (CA), Italy, S.S. 195 "Sulcitana" Km. 19. It is jointly controlled by Gian Marco Moratti SapA and Massimo Moratti SapA, which own 25.01% each and 50.02% jointly of its share capital (excluding treasury shares), under the shareholders' agreement signed by the two companies on 1 October 2013. The company's term is set until 31 December 2056, as stated in its articles of association.

Saras SpA operates in the Italian and international oil markets as a buyer of crude oil and a seller of finished products. The Group's activities include refining of crude, the production and sale of electricity via an integrated gasification combined cycle (IGCC) plant operated by its subsidiary Sarlux Srl and a wind farm run by the subsidiary Parchi Eolici Ulassai Srl (via the subsidiary Sardeolica Srl).

These consolidated financial statements for the year ended 31 December 2017 are presented in euro, since this is the currency of the economy in which the Group operates. They consist of a statement of financial position, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and these notes to the accounts. All amounts shown in these notes are expressed in thousands of euro, unless otherwise stated.

2. Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Group for the year ending 31 December 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS or "international accounting standards") issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to article 6 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19 July 2002, and in accordance with the measures adopted in implementation of Art. 9 of Legislative Decree No. 38 of 28 February 2005.

The term IFRS is used to mean all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC), endorsed by the European Commission as of the date the draft consolidated financial statements of the Group and separate financial statements of Saras S.p.A. were approved by its Board of Directors, and set out in the relevant EU regulations published as of that date.

The financial statements have been prepared using the following criteria, in line with IAS 1, deemed suitable to provide a more complete picture of the financial position, operating results and cash flows:

- Statement of Financial Position: assets and liabilities are divided into current and non-current items, according to liquidity;
- Income statement and statement of comprehensive income: income statement items are presented according to their nature;
- Cash flow statement: presented using the indirect method, which distinguishes between cash flows from operations, investing and financing activities;
- Statement of Change in Consolidated Equity.

The accounting standards shown below have been applied consistently to all the periods reported.

These financial statements were prepared in accordance with the going concern principle, as the Directors determined that there are no financial or operating indicators, among others, signalling criticalities in the Group's ability to meet its obligations in the foreseeable future. The risks and uncertainties relative to the business are described in the section dedicated to the Report on Operations. A description of the Company's financial risk management, including liquidity and capital risks, is provided in the section on additional information on financial instruments and risk management policy of these notes.

3. Accounting standards applied

3.1 Standards and interpretations endorsed and in force as of 1 January 2017

The amendments to IAS 7 Statement of Cash Flows are part of the IASB Disclosure Initiative and require an entity to supply additional information that allows the users of financial statements to evaluate the variations in liabilities linked to financing activities, including both variations linked to cash flows and non-monetary variations. At the time of the initial application of this amendment the entity need not present comparative information relating to previous financial periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The application of these amendments had no significant impact on the Group.

3.2 Accounting standards issued but not yet in force

Below, standards and interpretations are illustrated which, at the Group's reporting date, had been issued but were not yet in force. The Group intends to adopt these standards once they come into force.

IFRS 9 – Financial Instruments
In July 2015, the IASB issued the final version of IFRS 9 Financial Instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all previous versions of IFRS 9. IFRS 9 is divided in three parts:

1. classification and measurement of the financial instruments on the basis of the business model of the entity and the characteristics of cash flows generated by such financial instruments;

2. impairment of financial instruments on the basis of a new and unique impairment model based on the recognition of an entity's expected losses. This model is not applied to equity instruments and calls for the simplification of trade receivables, from an operational point of view;

3. hedge accounting based on a more flexible approach than that indicated in IAS 39.

IFRS 9, endorsed by the European Union, is effective for annual periods beginning on or after 1 January 2018, with early application permitted. With the exception of hedge accounting, the retrospective application of the standard is required, but it is not necessary to provide comparative information. As regards hedge accounting, the standard is generally applied prospectively, with certain limited exceptions.

The Group will adopt the new standard once it comes into force.

In 2017, the impact of the transition was analysed with respect to the three macro-areas of revision of the current provisions of IAS 39.

With respect to the new classification and measurement criteria of financial instruments introduced by IFRS 9, a detailed analysis was conducted, focusing on the instruments currently in portfolio and the related accounting balances in the 2016 financial statements. For each identified category, the current accounting treatment under IAS 39 was analysed and subsequently compared with the future classification under IFRS 9, considering the specific contractual features of the instruments and the classification options allowed by the standard. The analysis revealed the following preliminary impacts:

Non-controlling interests
They are recognised at cost under IAS 39, but are to be recognised at fair value under IFRS 9, with a balancing entry in the income statement or the statement of comprehensive income. They are of a modest nature (Sarda Factoring and Consorzio La Spezia Utlities). Their estimated current value is not expected to have any significant quantitative effect on the financial statements.

Factored trade receivables
They are currently measured at amortised cost, which substantially coincides with their nominal amount given the lack of transaction costs. Under IFRS 9, these components qualify as debt instruments and are to be measured at fair value. Indeed, as they are not held to maturity, they cannot be assigned to a hold-to-collect-type model required by the IFRS 9 in order to measure financial assets at amortised cost. The new classification under IFRS 9 has no impact on the carrying amount of these receivables since, in general, the fair value of a short-term trade receivable, provided that there are no significant transaction costs, can be reasonably deemed to approximate its nominal amount. The different classification will impact the disclosure to be provided in the notes, in accordance with IFRS 7.

Financial liabilities to be renegotiated
The carrying amount of the liabilities to be renegotiated outstanding at 31 December 2017 will be recalculated under the new calculation approach introduced by IFRS 9 and, at the opening balances at 1 January 2018, the difference compared to the carrying amount calculated under IAS 39 will be offset against equity. The impact on the opening equity at 1 January 2018 is not expected to be significant since most of the potential effects generated by past renegotiations were reabsorbed in the 2017 income statement following the early settlement of most liabilities as per the transaction carried out in last few days of 2017, as described in note 5.4.1 – Long-term financial liabilities.

With respect to the other financial statements captions analysed (Other current receivables at amortised cost, Guarantee deposits, Intercompany loans in the separate financial statements, derivatives, financial liabilities), to date, no potential impacts are expected from the introduction of IFRS 9, such to require a detailed analysis.

With respect to impairment rules, the analysis showed the following:

- most receivables arising from the Group's operations are transferred without recourse (and are derecognised) and/or as part of other credit risk mitigation measures with respect to both wholesale sales (mainly through insurance coverage and, to a lesser extent, by means of bank sureties) and receivables from cargo trading activities (collection, including through letters of credit, bank sureties or parent company guarantees);

- most receivables arising from cargo trading activities (with a significant unit amount) are characterised by extremely limited terms of payment (i.e., a few days after the date of delivery of the goods);

- the allowance for impairment is currently calculated based on specific assessments of the recoverability of past due positions;

- the losses on receivables historically recognised by the Group are not of a significant amount.

Therefore, it was preliminarily deemed that the credit risk arising from the expected loss on performing receivables – a new element to be included when estimating the allowance for impairment under IFRS 9 – is not be considered significant.

With respect to hedge accounting rules, at present, the Saras Group does not apply these rules to its derivatives portfolio. In line with this accounting policy, the application of the new rules under IFRS 9 as of 1 January 2018 will have no accounting effect on the opening balances or the financial presentation of derivatives starting from 2018. However, given the simplifications introduced by IFRS 9 and main operating circumstances which may be potentially managed using hedge accounting rules, in the future, the Group may decide to further investigate the future application of the hedge accounting rules to its derivatives portfolio.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and introduced a new five-step model that will apply to revenue from contracts with customers. IFRS 15 prescribes that an entity will recognise revenue that reflects the consideration to which the entity expects to be entitled in exchange for goods or services to customers.

The new standard will supersede all current IFRS requirements on revenue recognition. This standard is effective for annual periods beginning on or after 1 January 2018, with full retrospective or amended application. Early application was permitted.

The Group decided to apply the new standard starting on the obligatory effective date, using the full retrospective application method.

The standard establishes a new model of recognition of revenues, which will be applied to all contracts stipulated with clients with the exception of those that fall under the scope of other IAS/IFRS standards such as leasing contracts, insurance contracts and financial instruments. The fundamental steps for the accounting of revenues according to the new model are:

- the identification of the contract with the customer;

- the identification of the contract's performance obligations;

- the determination of the price;

- the allocation of the price to the contract's performance obligations;

- the revenue recognition criteria when the entity satisfies each performance obligation.

In 2017, the main findings of the analysis of the impact of applying the new standard are described below.

The Group earns its revenues from the sale of oil products according to the following types of transactions: Oil sales (Cargo, Transfer Stock), Wholesale and Retail sales, the latter are limited to the sales outlets of the Spanish subsidiary. Furthermore, revenues are also earned from the sale of electricity to a private operator and to Italy's grid operator (GSE), in addition to other income, specifically, for contributions related to the incentive-based tariff for the production of electricity from renewable sources, white certificates for energy-savings projects, the reimbursement of emissions trading charges, the sale of biodiesel certificates and other minor items.

The different types of transactions were analysed with respect to the five steps introduced by the standard:

- Identifying the contract, the customer and the relevant contractual provisions;

- Identifying the goods or services covered by the contractual obligation, including guarantees, options, ancillary services and multiple services;

- Determining the transaction price, including variable, financial, non-monetary and amending components;

- Allocating any variable or discount components to contractual obligations;

- Identifying when the contractual obligation is met and the revenue can therefore be recognised in profit or loss, checking transfer of control and any acceptance, repurchase, deposit or other relevant clauses.

Furthermore, the clauses which provide for the invoicing of ancillary costs, including, in particular, transport costs on Cargo sales, were analysed.

The composition of similar types of transactions with respect to Oil sales is facilitated by the use of contracts based on a standard form which uniquely identifies the main features of the transaction (buyer, seller, product, delivery, quantity, quality, laydays, payment condition, price, laytime and demurrage, etc.).

Oil sale types and the peculiar features on which the analysis was mainly focused are as follows:

Cargo sales
These refer to the sale of oil products by vessel. The related revenues are recognised upon transfer of control over the asset, identified based on Incoterms. These contracts do not include any contractual obligations in addition to the sale of the asset, or financial components or discount mechanisms. Any recharging of transport costs, managed on behalf of the buyer and covered by the recharging transaction, is considered, similarly to demurrage, if any, as an ancillary charge which does not configure an independent sale in which Saras acts as the agent. The price is calculated based on the qualitative characteristics of the product, which are checked by an independent inspector upon loading or unloading of the vessel, based on the commercial condition applied. Consequently, the accounting treatment applied to these transactions need not be amended.

Transfer stock
These refer to the sale of oil products through the delivery of the product to a third-party depositary, where it can be collected by the buyer. When the product is delivered to the depositary, the seller no longer retains ownership which is transferred to the buyer as per the tax records. Therefore, the seller can no longer use it. Saras recognises the revenue from the sale at this time. Similarly to Cargo sales, the quality of the product delivered is checked by an independent inspector when the product is delivered to the depositary. Consequently, the accounting treatment applied to these transactions need not be amended.

Trading
Since 2016 the Group has launched its optimisation and trading business through the subsidiary Saras Trading SA. These transactions substantially reflect the above sale patterns applied to goods or oil products, which entail the purchase and sale of finished products. When the company only acts as the trader within the Group, the identification of the agent and the principal, on a consolidation level, does not apply. Consequently, the accounting treatment applied to these transactions need not be amended.

Sales of electricity are recognised in profit or loss upon delivery to one of the two buyers, measuring the electricity delivered and subsequently invoicing the agreed price, without falling under any of the above specific categories introduced by IFRS 15, which may modify the measurement and recognition criteria currently applied to revenues.

With respect to other income, the following types of revenues will be reclassified to revenues from sales:

- The incentive-based tariff for the production of electricity from renewable sources (wind), which previously consisted in the allocation of green certificates which could be sold independently, is a flow of revenues from an ordinary activity of the entity, as per IFRS 15: now it forms an integral part of the sale price and will no longer classified separately. In the 2016 financial statements, this caption amounted to EUR 21 million.

- Revenues from the sale of biodiesel certificates as they result from a core product of ordinary refinery activities. In the 2016 financial statements, this caption amounted to EUR 31 million. It is expected to grow significantly in 2017.

- Similarly to the recharging of transport costs, revenues from the recharging of demurrage costs to Oil product buyers are considered ancillary charges and do not qualify as independent sale transactions. In the 2016 financial statements, this caption amounted to EUR 16 million.

Conversely, revenues from white certificates for energy-savings projects and for the reimbursement of emissions trading charges are maintained under other income as they are not generated by the ordinary activities of the entity which manufactures products to be sold to customers, as set out in IFRS 15.

Amendments to IFRS 10 and to IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
The amendments concern the conflict between IFRS 10 and IAS 28 with reference to the loss of control of a subsidiary that is sold or assigned to an associate or by a joint venture. The amendments clarify that the profit or loss resulting from the sale or assignment of activities that constitute a business as defined by IFRS 3, between an investor and an associate or joint venture, must be fully recognised. Any profit or loss resulting from the sale or assignment of assets that do not constitute a business is only recognised up to the limits of the stake held by third-party investors in the associate or joint venture. The IASB has indefinitely postponed the date of application of these amendments, but an entity opting for early application should apply them retrospectively.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
These amendments clarify how to account for deferred tax assets relating to debt instruments measured at fair value. This standard, which is expected to come into force on 1 January 2017, has not been endorsed by the European Union. These amendments are not applicable to the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
IASB has issued amendments to IFRS 2 Shared-based payment which deal with three main issues: the effects of a vesting condition on the measurement of a cash-settled share-based payment; the classification of a liability-settled share-based payment; accounting in the eventuality of an amendment in the terms and conditions of a share-based payment transaction modifies its classification from a cash-settled to an equity-settled transaction. At the time of adoption, entities must apply the amendments without restating previous financial periods, but the retrospective application is allowed if chosen for all three amendments and if other criteria are complied with. These amendments are effective for annual periods beginning on or after 01 January 2018, with early application permitted. The Group is evaluating the effect of these amendment on its consolidated financial statements.

IFRS 16 Leases
IFRS 16 was published in January 2016 and replaces IAS 17 Leasing, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases – Incentives and SIC-27 Evaluating the substance of transactions in the legal form of a lease. IFRS 16 defines the standards for the recognition, measurement, presentation and disclosure of leases, requiring lessees to recognise all leases in the financial statements on the basis of a single model similar to that used for accounting for finance leases in accordance with IAS 17. The standard

provides for two exemptions for the recognition by lessees – leases relating to “low value” assets (for example personal computers) and short-term leases (for example, the lease term is 12 months or less). At inception of a lease, the lessee will recognise a liability for the lease payments (the lease liability) and an asset that represents the right of use of the leased item for the term of the contract (the right-of-use asset). Lessees will need to account separately for the interest expense on the lease liability and the depreciation of the right-of-use asset.

Lessees will also need to remeasure the lease liability on the occurring of specific events (for example: a change in the conditions of the lease contract, a change in future lease payments due to a variation in an index or rate used for determining those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment of the right-of-use asset.

IFRS 16 requires from lessees more detailed disclosure compared to that required from IAS 17.

The standard will come into force for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before the entity has adopted IFRS 15. A lessee can chose to apply the standard using a fully retrospective approach or a modified retrospective approach. The transitional measures included in the standard allow some facilitations.

The Group has begun analysing the impact of the introduction of the new standard: the preliminary analysis showed no significant impacts since the Group did not enter into major leases.

IFRS 17 Insurance Contracts
In May 2017, the IASB published IFRS 17 Insurance Contracts which covers insurance contracts’ recognition and measurement, presentation and disclosure. Once into force, IFRS 17 will replace IFRS 4 Insurance Contracts, published in 2005. IFRS 17 applies to all types of insurance contracts (e.g., life and non-life, direct insurance and re-insurance), regardless of the nature of the entity that issues them, as well as some guarantees and financial instruments with discretionary participation features.

The standard will provide for some limited exceptions. The scope of IFRS 17 is to introduce an accounting model for insurance contracts that is more useful and consistent for insurers. Contrary to the provisions of IFRS 4 which largely maintain the previous accounting policies, IFRS 17 introduces an exhaustive model for all insurance contracts, covering all significant accounting issues. The core of IFRS 17 is the general model, integrated by:

- a specific adjustment for contracts with direct participation features (VFA/variable fee approach);
- a simplified approach (the premium allocation approach), mainly for short-term contracts.

IFRS 17 will be effective for annual periods beginning on or after 1 January 2021 and will require the presentation of corresponding balances. Early application is permitted if both IFRS 9 and IFRS 15 have also been applied. This standard does not apply to the Group.

Transfers of Investment Property — Amendments to IAS 40
The amendments clarify when an entity should transfer property, including that under construction or development, to, or from, investment property. According to the amendments, a change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use. An entity should apply the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of the property held at such date and, where applicable, reclassify it to reflect the conditions in place at the such date. Retrospective application is also permitted under IAS 8 if that is possible without the use of hindsight. These amendments are effective for annual periods beginning on or after 1 January 2018. Early application is permitted, giving disclosure thereof. The Group does not expect any impact on its consolidated financial statements.

Annual Improvements 2014-2016 Cycle (issued in December 2016)
They include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters
The short-term exemptions envisaged in paragraphs E3-E7 of IFRS 1 have been deleted as they have served their purpose. These amendments have been in force since 1 January 2018. They are not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
The amendments clarify that:

- an entity that is a venture capital organisation, or a mutual fund, may elect to measure upon initial recognition the individual investment in associates and joint ventures at fair value through profit or loss;
- when an entity that does not qualify as an investment entity, has an investment in an associate or a joint venture that is an investment entity, the entity may, provided that the equity method is applied, elect to continue to apply the fair value measurement applied by said investment entity (either an associate or a joint venture) to its investments (associate or joint venture). This election is made separately for each associate or joint venture that is an investment entity at the latter of the following dates (in terms of occurrence): (a) the initial recognition of the investment in the associate or the joint venture that is an investment entity; (b) when the associate or joint venture becomes an investment entity; and (c) when the associate or joint venture that is an investment entity becomes the parent company for the first time.

The amendments should be applied retrospectively as of 1 January 2018; early application is permitted. An entity’s decision to opt for the early application of these amendments must be disclosed. These amendments are not applicable to the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4
The amendments refer to the concerns arising from the application of the new standard on financial instruments (IFRS

9), before IFRS 17 Insurance Contracts, replacing IFRS 4, is applied. They introduce two options for entities issuing insurance contracts: a temporary exemption from IFRS 9 and the overlay approach. The temporary exemption applies for the first time to the years beginning on or after 1 January 2018. An entity can choose to apply the overlay approach only when it first applies IFRS 9. The application applies retrospectively to financial assets designated upon transition to IFRS 9. The entity shall redetermine the corresponding figures, reflecting the overlay approach if, and only if, it redetermines such figures when applying IFRS 9. These amendments are not applicable to the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that, the date of the transaction for the purpose of determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The entities may apply the adjustment on a full retrospective basis. Alternatively, they may apply the Interpretation prospectively to all assets, expenses and income in the scope of the Interpretation initially recognised on or after:

(i) the beginning of the reporting period in which the entity first applies the Interpretation;

or

(ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the Interpretation.

The Interpretation came into force for annual periods beginning on or after 1 January 2018. Early application is permitted, giving disclosure thereof. Furthermore, since its current accounting policy is in line with the Interpretation, the Group does not expect any impact on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation determines the accounting for income taxes when there is uncertainty over income tax treatments which have an effect on the application of IAS 12. It does not apply to taxes or levies outside the scope of IAS 12 nor does it explicitly refer to interest and penalties related to uncertain tax treatments.

This Interpretation addresses in particular:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances.

An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. The Interpretation will come into force for annual periods beginning on or after 1 January 2019. Transitional facilitations are available. The Group will adopt the Interpretation as of the date of its entry into force.

3.3 Consolidation scope

Subsidiaries that are included in the Group's consolidation scope are listed below.

Consolidated on a line-by-line basis	% owned
Deposito di Arcola Srl	100%
Sarlux Srl	100%
Saras Ricerche e Tecnologie Srl	100%
Sarint SA and subsidiaries	100%
Saras Energia SAU	100%
Terminal Logistica de Cartegena SLU	100%
Reasar SA	100%
Sardeolica Srl and subsidiary	100%
Alpha Eolica Srl (in liquidation)	100%
Saras Trading SA	100%

Equity investments recognised at cost	
Sarda Factoring	5.95%
Consorzio La Spezia Utilities	5%

The reverse merger of the parent company Parchi Eolici Ulassai Srl into the subsidiary Sardeolica Srl took place in 2017 in order to group the industrial activities of the wind sector into one single company, generating operational and management efficiencies.

The transaction became effective for accounting and tax purposes on 1 January 2017 and was conducted on the basis of 'accounting continuity', i.e., by recognising all the assets and liabilities of the merged company in Sardeolica Srl's financial statements at the carrying amounts reported in the financial statements. The transaction had no effect on the Group's consolidated financial statements.

The criteria adopted for the line-by-line consolidation of fully consolidated subsidiaries are as follows:

[I] Assets and liabilities, and income and expense items are reported line-by-line and a portion of the equity and net profit is allocated, where applicable, to minority shareholders. These items are shown separately under the relevant headings under consolidated equity and in the consolidated comprehensive income statement.

[II] Business combinations that lead to the control of an entity being acquired are accounted for using the purchase method. The cost of acquisition equates to the fair value on the date on which the entity's assets and liabilities and any equity instruments issued are acquired. The difference between:

- the consideration paid (generally calculated on the basis of its fair value at acquisition date), and – in the case of a business combination achieved in stages – the fair value at the date of acquisition of control of the equity investment already held in the company; and

- the fair value of the identifiable assets acquired net of the identifiable liabilities taken on, measured at the date control is acquired

is recognised, where the relevant conditions apply, as goodwill on the date that control of the business is acquired. In the case of negative goodwill, this is recognised in the income statement.

[III] Gains and losses arising from transactions between companies that are consolidated on a line-by-line basis, which have yet to be realised with third parties, are derecognised, where significant, as are any intragroup payables and receivables, costs and revenues, and financial income and charges.

[IV] Gains and losses arising from the disposal (without loss of control) of equity investments in consolidated companies are charged to equity for amounts corresponding to the difference between the selling price and the portion of consolidated equity effectively transferred. If further acquisitions of equity investments take place without a change in control, the difference between the purchase price and the corresponding portion of equity acquired is recognised through equity.

Investments in companies over which control is exercised jointly with other companies (joint ventures) and in companies over which the Group exercises significant influence (referred to hereinafter as 'affiliated companies'), which is presumed to exist when a stake of between 20% and 50% is held, are accounted for using the equity method, except where the application of this method does not impact on the Group's financial position, operating results and cash flow; in such instances, the investment is measured at cost. The way in which the equity method is applied is described below:

[I] the carrying amount of an investment is brought into line with the equity of the investee, adjusted, where necessary, to reflect the adoption of accounting policies that are consistent with those adopted by the Parent Company and includes, where applicable, any goodwill identified at the time of the acquisition.

[II] The Group's proportionate share of profits or losses is recognised in the consolidated income statement from the date on which the significant and controlling influence commences until the day it ceases to exist. Should the company, as a result of losses, report a net deficit, the carrying amount of the investment is eliminated and any excess amount attributable to the Group is allocated to the relevant provision, only where the Group has undertaken to meet the investee's legal or constructive obligations or in any event to cover its losses. Changes in the equity of investee companies that are not allocated to the result posted in the income statement are directly added to or deducted from equity reserves.

[III] unrealised gains and losses arising from transactions between the Parent Company and subsidiaries or investee companies are derecognised based on the value of the stake held by the Group in the investees. Unrealised losses are eliminated, except where they represent an impairment loss.

The financial statements of the companies included in the basis of consolidation are prepared using the currency of the main economic environment in which they operate (functional currency). The consolidated financial statements are presented in euro, which is the functional currency of the Parent Company. The following rules are followed when translating the financial statements of companies expressed in a currency other than the functional currency into euro.

[I] Assets and liabilities are translated at the applicable exchange rates on the reporting date.

[II] costs and revenues are translated at the average exchange rate for the year (1.12923).

[III] The translation reserve includes both exchange rate differences arising from the translation of income statement amounts at an exchange rate different from the year-end rate and those arising from the translation of equity balances at the beginning of the year at an exchange rate different from the year-end rate.

[IV] Goodwill and fair value adjustments relating to the acquisition of a foreign entity are treated as assets and liabilities of that entity and translated at the previous year-end exchange rate.

[V] When preparing the consolidated cash flow statement, the average exchange rates for the period are used to translate the cash flows of foreign subsidiaries.

3.4 Summary of accounting standards and policies

The consolidated statements have been prepared based on the cost principle, except in the specific cases described in the notes below, where fair value has been applied.

The main accounting policies used are described below.

A Cash and cash equivalents

Cash and cash equivalents mainly consist of cash on hand, demand deposits with banks, other short-term, highly liquid investments (convertible into cash within 90 days) and overdraft facilities; overdrafts in bank accounts are reported under current liabilities. Items listed under net cash and cash equivalents are measured at fair value, and changes are reported in the income statement.

B Other financial assets

Other financial assets are reported at fair value, with any gains reported in the income statement under "Financial income" and "Financial charges". Other financial liabilities also include derivative contracts, which are discussed in the appropriate section below.

C Trade receivables

Trade receivables are measured at fair value on initial recognition. Subsequently, they are valued at amortised cost by applying the effective interest rate method. Where there is objective evidence indicating impairment (in terms of both solvency and the credit risk characteristics of individual debtors), the asset's carrying amount is decreased to an amount equal to the discounted value of its future cash flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-down no longer exist, the write-down is reversed

up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

Receivable assignments

Receivable assignments are accounted for in accordance with the method indicated by IAS 39 for the derecognition of financial assets. Consequently, all receivables assigned to the factoring company, when contractual provisions include clauses that do not involve maintaining significant exposure to the performance of cash flows arising from the receivables assigned, are derecognised.

D Inventories

Inventories are recognised at the lower of purchase or production cost and the net realisable value at the end of the financial year represented by the amount that the Group expects to obtain from their sale as part of its ordinary business activities. The cost of crude oil, materials and spare parts is determined by the FIFO method. The cost of oil product inventories is calculated using the weighted average cost of the last quarter.

E Current tax assets

Current tax assets are booked at initial recognition in the amount that is expected to be recovered from the tax authorities, taking into account their expected realisable value. Subsequently, they are recognised at amortised cost based on the effective interest rate method.

F Other assets

Other current assets are measured at fair value on initial recognition. Subsequently they are recognised at amortised cost by applying the effective interest rate method. Where there is objective evidence indicating impairment, the asset's carrying amount is decreased to an amount equal to the discounted value of its future cash flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-down no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

White certificates are awarded on the achievement of energy savings through the application of technology and efficient systems.

White certificates are recognised on an accruals basis under "Other income", in proportion to the savings, expressed as tons of oil equivalent (TOE), achieved during the year, through investments previously approved by the competent Authority.

The certificates are valued at the average market value for the year, unless the market value at the end of the year is significantly lower. The decreases due to the sale of white certificates accrued in the current or prior years are measured at the sale price. Gains and losses arising from the sale of certificates in different years from those in which they were accrued are recognised under 'Other income' or 'Services and sundry costs', respectively.

G Derecognition of financial assets and liabilities

Financial assets that are transferred are derecognised from the statement of financial position when the right to receive the related cash flows is transferred, together with all risks and benefits associated with ownership, as specified in paragraphs 15-23 of IAS 39.

Financial liabilities are derecognised when they are settled and when the Saras Group has transferred all the risks and charges relating to them.

H Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, less accumulated depreciation and any impairment. The cost includes all expenses incurred directly in preparing the assets for use, as well as any disposal and removal charges incurred as a result of contractual obligations. Any interest expenses relating to the construction of tangible assets are capitalised until the asset is ready to be used.

Costs associated with requirements to restore or dismantle plants arising from statutory or contractual obligations are accounted for as an increase in the historical cost of the asset with an offsetting entry in the provisions for risks and future liabilities.

Maintenance and repair charges are expensed as incurred. Costs relating to the expansion, modernisation or improvement of facilities owned by Saras or used by third parties are only capitalised up to the limits within which they fulfil the conditions for separate classification as an asset or part of an asset in accordance with the component approach. Turnaround costs are classed as extraordinary maintenance costs and capitalised in the year in which they are incurred. They are amortised over the expected length of time until the next turnaround. Similarly, the costs of replacing the identifiable components of complex assets are recognised as assets and depreciated over their useful life; the residual value of components thus replaced is charged to the income statement. Government grants relating to capital expenditure are deducted from the purchase price or production cost of the relevant assets when the conditions necessary for receiving them have been met.

The carrying amount of property, plant and equipment is depreciated on a straight-line basis from the time the asset is available and ready for use, in relation to its estimated useful life.

The IGCC plant was depreciated in the past few years over its useful life which coincides with the term of the twenty-year contract for the sale of electricity under the CIP6 incentive-based tariff. The contract will expire in 2021. Based on the recent industrial strategies mirrored in the 2018/2021 business plan, the IGCC plant is expected remain in operation after 2021, generating electricity and other utilities (hydrogen and steam) for the refinery, selling only the excess amount to the market.

Consequently, its useful life was extended to 2031, based on an internal technical assessment and considering the investment plans for the conversion to the new use and the ten-year extraordinary maintenance necessary to extend the plant's useful life.

The useful life estimated by the Group for each of the various asset categories is as follows:

	for IGCC plant	for other fixed assets
Buildings	until 2031	18 years
Generic Plant	until 2031	12 years
Highly Corrosive Plant	until 2031	9 years
Thermal power station	until 2031	
Wind Park		10/25 years
Transforming Stations	until 2031	13 years
Office furniture and machinery		4 years
Vehicles		4 years
Other Assets		5/12 years
Leasehold improvements	The shorter of the duration of the lease and the asset's useful life	

The useful life of property, plant and equipment and their residual value are revised annually at each reporting date, and adjusted accordingly.

Land is not depreciated.

If an asset to be depreciated consists of separately identifiable components and the useful life of one component differs significantly from that of the others, each component of the asset is depreciated separately in accordance with the component approach.

I Leased goods

Assets held under finance leases, under which all risks and benefits associated with ownership are substantially transferred to the Group, are recognised as Group assets and recorded at their current value or, where lower, at the present value of the minimum lease payments still due. The corresponding liability to the lessor is recognised on the statement of financial position under financial liabilities. Leased assets are depreciated on the same basis and at the same depreciation rates as those set out above for property, plant and equipment.

Leases under which the lessor substantially retains all the risks and benefits associated with ownership of the assets are treated as operating leases. The costs relating to operating leases are charged to the income statement on a straight-line basis over the term of the lease.

J Intangible fixed assets

Intangible assets are made up of elements that are non-monetary in nature, without physical substance and clearly identifiable (i.e. distinct, able to be separated, dismantled or traded, and deriving from other contractual or legal rights), controlled by the company and capable of generating future economic benefits. These elements are recognised at acquisition and/or production cost, which includes any directly attributable charges incurred in preparing the asset for use, net of accumulated amortisation and any impairment losses. Any interest expenses accrued during and in respect of the development of intangible assets are charged to the income statement. Amortisation commences from the time the asset is available for use and is charged on a straight-line basis over its estimated useful life.

[I] Goodwill

Goodwill is the excess cost (acquisition cost plus the fair value of any minority interests already held at the point when control is acquired) incurred over net fair value, as recorded on the acquisition date, when acquiring assets and liabilities forming businesses or business units. Goodwill relating to equity-accounted investees is included in the carrying amount of the investees. It is not systematically amortised, but is periodically tested for impairment. This test is carried out with regard to the cash generating unit to which goodwill is to be allocated. Any reduction in goodwill is recognised where the recoverable amount of goodwill is lower than its carrying amount (the recoverable amount is the higher of the fair value of the cash generating unit, less disposal costs, and its value in use, which is the present value of the cash flows expected to be generated in the years during which the cash generating unit is operating and from its disposal at the end of its useful life).

In the event that the impairment arising from the test is greater than the amount of goodwill allocated to the cash generating unit, the residual amount is in turn allocated to the assets included within the cash generating unit, in proportion to their carrying value. The minimum amount for this allocation is the highest of the following:

- the fair value of the asset, less disposal costs;
- its value in use, as defined above;
- zero.

Where goodwill was previously written down for impairment, the write-down is not reversed.

[II] Patent rights, concessions, licences and software (intangible assets with an indefinite useful life)

Intangible assets with a finite useful life are amortised systematically over their useful life, taken to be the estimated period in which the assets will be used by the company; the recoverability of the carrying amount of the assets is checked using the same method applied to 'Property, plant and equipment'.

[III] Research and development expenses

The costs associated with the acquisition of new knowledge or discoveries, the development of alternative products or processes, new techniques or models, the design and construction of prototypes, or otherwise relating to other scientific research or technological development are treated as current costs and taken to profit or loss when incurred.

[IV] Exploration for and evaluation of mineral resources

Expenditures incurred in the exploration and evaluation of mineral resources, specifically:

[A] Acquisition of exploration rights;

[B] Photographic, geological, geochemical and geophysical studies;

[C] Explorative drilling;

[D] Digging;

[E] Sampling;

[F] Activities related to the evaluation of technical and commercial viability of extracting a mineral resource

are recorded under tangible or intangible assets according to their nature, as required by IFRS 6. These costs are periodically reviewed in order to determine whether any impairment indicators exist that might indicate that their recoverable value is lower than their carrying value.

K Impairment of assets

At each reporting date, property, plant and equipment and intangible assets with a finite useful life and equity investments are tested for impairment, originating from both internal and external sources. Where such indicators exist, the recoverable amount of these assets is estimated and any impairment loss duly charged to the income statement. The recoverable amount of an asset is the greater of its fair value less selling costs and its value in use (the present value of the future cash flows that the asset is expected to generate). In determining value in use, future cash flows are discounted using a pre-tax

discount rate that reflects current market assessments of the time value of money in relation to the period of the investment and the risks specific to the asset. The recoverable value of an asset that does not generate largely independent cash flows is determined in relation to the cash generating unit to which the asset belongs. An impairment is recognised in the income statement whenever the carrying value of an asset, or of the cash generating unit to which it is allocated, is higher than its recoverable value. When the reasons for impairment no longer exist, the impairment loss is reversed to profit or loss up to the carrying amount that the asset would have had, had it not been impaired and if it had been depreciated.

L Other investments

The investments included under 'Other investments' are measured at fair value, with the impact of any changes in fair value recognised through profit or loss. Where fair value cannot be reliably determined or is insignificant, they are measured at cost less any impairment losses, in compliance with IAS 39. These costs are periodically reviewed in order to determine whether any impairment indicators exist that might indicate that their recoverable value is lower than their carrying value.

M Other financial assets

Receivables and financial assets held to maturity are measured at fair value on initial recognition. Subsequently they are valued at amortised cost by applying the effective interest rate method. Where there is objective evidence indicating impairment, the asset's carrying amount is decreased to an amount equal to the discounted value of its future cash flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-down no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

The treatment of financial assets linked to derivative instruments is shown under point "Y Derivatives".

N Treasury shares

Treasury shares are recognised at cost and deducted from equity.

O Shareholders' equity

[I] Share capital

Share capital consists of the Parent Company's subscribed and paid-up capital. Costs strictly related to the issue of new shares are deducted from equity reserves, after any deferred tax effect.

[II] Reserves

Reserves comprise equity-related reserves set aside for a specific purpose relating to the Parent Company; they include retained earnings.

[III] Share-based payments by the Parent Company to Group's employees and management

The Group grants additional benefits to employees and management via the allocation of bonus shares. In accordance with IFRS 2 (Share-based Payments), the cost of stock plans, which coincides with the fair value of the instrument at the grant date, is recognised in profit or loss over the vesting period on a straight-line basis, with a balancing entry in equity. Changes in fair value after the grant date have no effect on the initial valuation.

P Funds for risks and charges

Provisions for risks and future liabilities are recognised only where a present obligation (legal or constructive) exists in relation to past events that is expected to result in an outflow of financial resources, the amount of which can be reasonably assessed. This amount represents the best discounted estimate of the sum that must be paid to discharge the obligation. The rate used to determine the present value of the liability reflects current market values and includes the additional effects of the specific risk associated with each liability.

Those risks in respect of which it is only possible to show a future liability are disclosed in the section on commitments and risks, and no provision is made.

Q Provisions for employee benefits

The Group provides various types of pension plans, in keeping with the conditions and practices that are commonly applied locally in those countries in which it carries out its activities.

From 1 January 2007, the regulations governing post-employment benefits were amended to include the option for employees to decide where these are held. Specifically, new post-employment benefits may be allocated to pension funds or held at the company (if it has fewer than 50 employees, or allocated to INPS if it has more than 50 employees). The introduction of these regulations has resulted in the following accounting changes:

- Provisions made up to 31 December 2006

  Post-employment benefits pursuant to article 2120 of the Italian Civil Code are treated in the same way as "defined benefit plans"; these plans are based on the working life of the employees and on the remuneration they receive over a pre-determined period of service. The liability relating to post-employment benefits is entered on the statement of financial position based on their actuarial value, since this can be quantified as a staff benefit due on the basis of a defined benefit plan. The recognition of defined benefit plans requires the estimate of the benefits accrued by the employees in exchange for the service provided using actuarial techniques. These services are then discounted in order to determine the present value of the Group's obligations. The present value of the Group's obligations is determined by an external consultant using the projected unit credit method. This method, which comes under the more general area of "accrued benefit methods", considers each period of service at the company as an additional unit of entitlement: actuarial liabilities must therefore be quantified solely on the basis of years worked at the valuation date; thus, an estimate of the total liability is normally extrapolated from the number of years of service at the valuation date to account for the total number of years worked at the time the benefit is expected to be paid.

  The cost accrued for the year in respect of defined benefit plans is recorded in the income statement under personnel expenses and is equivalent to the sum of the average present value of entitlements accrued by current employees and the annual interest accrued on the present value of the Group's obligations at the beginning of the year, calculated using the discount rate for future disbursements that is used to estimate liabilities at the end of the previous year. The annual discount rate adopted for these calculations is the end-of-year market rate for zero coupon bonds with the same maturity as the average remaining duration of the liabilities.

Following application of IAS 19 (revised), actuarial gains and losses relating to the change in parameters, previously reported in the income statement (personnel costs), are now recognised in the statement of comprehensive income.

- Allocations accrued since 1 January 2007
  The allocations in question are accounted for using the method adopted for defined contribution pension plans (which are not subject to actuarial valuations) as the amount relating to employees has been transferred in full outside the Group.

  The corresponding liability is determined according to article 2120 of the Italian Civil Code.

R Financial liabilities, trade and other payables and other liabilities

These are measured at fair value on initial recognition. Subsequently they are valued at amortised cost by applying the effective interest rate method. Where there is a change in the estimated future cash flows and these can be reliably estimated, the value of the payables is recalculated to reflect this change on the basis of the present value of the new estimated future cash flows and the internal rate of return originally calculated.

Sale transactions with a repurchase obligation represent a form of financing as the risks attached to ownership (mainly the risk relating to changes in fair value) remain with the company. In this case, the asset is not derecognised, the payable for the repurchase is classified as financial and the difference is recorded in the income statement as financial income or charges.

Financial liabilities also include derivative contracts, which are discussed in the appropriate section below. Derivative contracts are measured at fair value with a balancing entry in profit or loss at each reporting date.

S Revenue recognition

Sales revenues are recognised when the risks and benefits associated with ownership have effectively been transferred or when a service has been rendered.

The recognition of revenues from services is based on the stage of completion reached.

Revenues are recorded net of returns, discounts, allowances and premiums, and of directly related taxes.

Excise duties paid on purchases are netted off against those collected on sales.

T Recognition of costs

Costs are recognised when they relate to goods and services that are sold or used during the year or by systematic allocation, or when their future usefulness cannot be determined.

U Interest income and expenses

Interest income and expenses are booked on an accruals basis.

V Conversion of items expressed in a currency other than the euro

Foreign currency transactions are translated into euros at the exchange rates ruling on the transaction date. Exchange rate gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary asset and liability items denominated in a foreign currency are recorded in the income statement.

W Dividends

[A] Dividends received

Dividends are recognised on the date on which the resolution approving them is carried by a shareholders' meeting.

[B] Dividends paid out

The payment of dividends to Parent Company shareholders is recognised as a liability in the statement of financial position of the year in which the distribution was approved by the company's shareholders.

X Taxes

Current taxes are calculated based on the taxable income for the period, applying the prevailing tax rates at the reporting date.

Deferred taxes are calculated on all temporary differences arising between the tax base of an asset or liability and its carrying amount, with the exception of goodwill, and those relating to temporary differences originating from investments in subsidiaries, when the timing of the reversal of such differences is controlled by the Group and it is probable that the differences will not be reversed within a reasonably foreseeable timescale. In respect of deferred tax assets (including those relating to tax losses from previous periods) that cannot be offset against deferred tax liabilities in full, the residual portion is recognised to the extent that it is probable that taxable income will be generated in future against which they can be recovered.

Deferred taxes are calculated using the tax rates that are expected to apply in the years in which temporary differences are realised or reversed.

Changes in tax rates due to regulatory amendments are booked in the year in which the changes are substantially enacted; the effect is recorded in the income statement or under equity, in relation to the transaction that generated the underlying deferred tax.

Current and deferred taxes are recognised in the income statement, with the exception of those related to items directly deducted from or added to equity, in which case the tax effect is taken directly to equity. Current and deferred taxes are set off when income taxes are applied by the same tax authority, when there is a legal right of set-off and the intention to settle on a net basis.

Other taxes not related to income, such as property taxes, are included under 'Cost of services and sundry costs'.

The Parent Company allows its Italian subsidiaries to participate in the tax consolidation scheme for the purposes of calculating corporate income tax (IRES), pursuant to articles 117-128 of the consolidated law on income tax ("Consolidated National Tax"). As a result, a single tax base is created for the Parent Company and the Italian subsidiaries, essentially through the algebraic sum of the tax profit or loss of each participant. Participation in a particular scheme is confirmed by a communication to the tax authority made by the Parent Company indicating which subsidiaries have decided to take up this option. The option has a fixed duration of three years (except in the event of interruptions provided for by law) and the matter is governed between the two parties by a consolidation agreement. With specific reference to the transfer of tax losses,

the agreements in force provide for remuneration commensurate with the ordinary IRES tax rate, equal to the portion of the loss of each subsidiary that was effectively offset by taxable income generated by other consolidated companies. Any excess losses remain allocated to the Parent Company and remuneration for these losses is deferred until the year that they are actually used under the national tax consolidation scheme.

Y Derivative instruments

All derivatives are financial assets and liabilities that are recognised at fair value.

They are classified as hedging instruments when the relationship between the derivative and the item being hedged is formally documented and the effectiveness of the hedge, verified periodically, is high. When derivatives hedge the risk of changes in the fair value of the underlying items (fair value hedges, e.g. hedging the variability of the fair value of fixed-rate assets/liabilities), they are recorded at fair value in the income statement; with the effects of the changes taken to profit or loss; at the same time, the hedged items are adjusted to reflect the changes in fair value associated with the risk hedged. When derivatives hedge the risk of changes in cash flows from the underlying items (cash flow hedges, e.g. hedging the variability of cash flows generated by assets/liabilities due to exchange rate fluctuations), the changes in the fair value of the derivatives are initially recognised under equity and subsequently taken to the income statement in the same period in which the economic effects of the hedged items are recorded in the income statement.

Derivatives (including those relating to commodities) that do not meet the requirements for hedge accounting set out in IAS 39 are booked at fair value in the income statement, with the change in the fair value of the instrument recorded under the heading 'Financial income' or 'Financial charges'.

To determine the fair value of financial instruments listed on active markets, the bid price of the security on the relevant reporting date is used. In the absence of an active market, fair value is determined by using measurement models based largely on objective financial variables, and by considering, wherever possible, the prices observed in recent transactions and the prices for comparable financial instruments.

Please note that the existing derivative financial instruments relate to hedging transactions for which "hedge accounting" has not been adopted.

Z Earnings per share

[I] Base

Basic EPS is calculated by dividing the Group's profit or loss, adjusted by the portion of profit or loss attributable to the holders of preference shares, by the weighted average of ordinary shares outstanding during the year, excluding treasury shares.

[II] Diluted EPS

Diluted EPS is calculated by dividing Group-operating profit, adjusted by the portion of earnings attributable to the holders of preference shares, by the weighted average of ordinary shares outstanding during the year, excluding treasury shares. For the purpose of calculating diluted earnings per share, the weighted average of shares outstanding is modified by assuming the conversion of all potentially dilutive ordinary shares, while the Group's profit or loss is adjusted to take into account the after-tax effects of the conversion.

AA Emissions trading

Legislative Decree No. 216 of 4 April 2006 introduced limits on CO_2 emissions from plants. If these limits are exceeded a company must purchase allowances or credits on the relevant market representing the excess CO_2.
If the allowances allocated are insufficient, the value of the shortfall is measured at market value and recorded in risks; if, however, the allowances exceed requirements, the surplus, measured at purchase cost aligned to the market value at the end of the year if lower, is recorded under intangible assets.

AB Segment information

An operating segment is a part of an entity:

a) that undertakes commercial activities that generate revenues and costs (including revenues and costs relating to transactions with other parts of the same entity);

b) whose operating results are reviewed periodically at the highest operational decision-making level of the entity in order to adopt decisions on the resources to be allocated to the segment and the assessment of the results; and

c) for which separate accounting information is available.

A geographical segment is defined as a group of assets and transactions used for specific services in a particular geographical area and subject to risks and benefits substantially different from those related to other geographical areas.

3.5 Use of estimates

The preparation of the financial statements requires the directors to apply accounting standards and methodologies that, in certain situations, are based on difficult and subjective assessments and estimates founded on past experience and assumptions that, from time to time, are considered reasonable and realistic under the circumstances. The use of these estimates and assumptions affects the amounts reported in the financial statements, i.e. the statement of financial position, income statement, statement of comprehensive income and cash flow statement, as well as the accompanying disclosures. The actual amounts of accounting entries for which estimates and assumptions have been used may differ from those shown in the financial statements, due to the uncertainty surrounding said assumptions and the conditions upon which the estimates are based.

3.6 Most significant accounting policies requiring a greater degree of subjectivity

A brief description is provided below of the most significant accounting policies requiring greater subjectivity by the directors in the preparation of their estimates and in respect of which a change in the conditions underlying the assumptions used could have a significant effect on the restated aggregate financial information.

[I] Depreciation of property, plant and equipment: depreciation of property, plant and equipment represents a sizeable cost for the Group. The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the assets concerned. The useful life of the Group's assets is determined by the directors at the time they are purchased; it is based on past experience for similar assets, market conditions and expectations as to future

events that could affect their useful life, such as changes in technology. Their actual useful life could therefore differ from the estimate. The Group periodically assesses technological changes and industry developments, dismantling and disposal costs and recoverable amount in order to adjust the asset's remaining useful life. This periodic revision process could lead to a change in the depreciation period considered and, therefore, in the depreciation charged in future years.

[II] Recoverable amount of property, plant and equipment: in the presence of impairment indicators, the estimated recoverable value is derived from a complex valuation process that largely depends on external sector variables or changes in the regulatory framework. The corresponding environment is monitored continuously and sector analyses are obtained regularly. However, it may be that the effective change in the key variables is not in line with expectations.

[III] Recoverable amount of inventories: the estimate of the recoverable amount of inventories entails a valuation process that is highly influenced by the performance of the oil product market which is exposed to significant changes, including of a short-term nature. Therefore, the net realisable value of crude oil and finished goods at year end is estimated based on the amount that the Group expects to obtain from their sale, by observing the sales taking place after the reporting date. Consequently, this assessment is influenced by market conditions.

[IV] Deferred taxes: deferred tax assets are recognised on the basis of expected future taxable earnings. The measurement of expected income for deferred tax recognition purposes depends on factors that may vary over time and may have a significant effect on the measurement of deferred tax assets.

[V] Provisions for risks and impairment losses on current assets: in certain circumstances, determining whether there is a current obligation (either legal or constructive) or the recoverability of current assets is not always straightforward in particular receivables from the GSE (Gestore dei Servizi Energetici SpA), with which there are some administrative disputes ongoing, are in some circumstances not easy to determine. The directors consider such circumstances on a case-by-case basis, and at the same time estimate the amount of financial resources needed to discharge the obligation. Where the directors feel that a liability or the risk of not recovering an asset are only possible, the associated risks are disclosed in the note concerning commitments and risks, and no accrual is made. Where the directors feel that a liability or the risk of not recovering an asset are only probable, a special risk provision is recorded.

[VI] Revenue from the sale of electric energy by Sarlux Srl to G.S.E. (Gestore dei Servizi Energetici S.p.A.): revenues are affected by the straight-line basis calculation since the electricity supply contract, pursuant to IAS 17 (Leases) and IFRIC 4 (Determining Whether an Arrangement Contains a Lease), has been recognised as a contract regulating the use of the plant by the customer of Sarlux Srl, meaning that it is comparable to an operating lease. Thus, these revenues have been reported on a straight line basis in accordance with both the duration of the contract (20 years) and forecasts for the price of crude oil and gas, which are determining factors for electricity tariffs and electricity production costs; in the years ahead, crude oil and gas prices could vary significantly from estimates as a result of events that cannot be predicted at present.

4. Information by business segment and geographical area

4.1 Introduction

The Saras Group's business segments are:

1. refining;
2. marketing;
3. generation of power by the combined cycle plant;
4. generation of power by wind farms;
5. other activities.

1. **The refining activity**, carried out by the parent company, Saras S.p.A., and the subsidiary Sarlux Srl refers to the sale of oil products obtained:

   - upon completion of the entire production cycle, ranging from the sourcing of raw materials to the refining and production of finished products, which is carried out at the company's site in Sarroch, Sardinia;
   - and, in part, by acquiring oil products from third parties.

   The finished products are sold to major international operators.

2. **Marketing activities** concern the distribution of oil products, an activity aimed at smaller-sized customers and/or those with distribution procedures that differ from those described above in relation to refining. These activities are undertaken:

   - in Italy, by Saras SpA (Wholesale Division), following the aforementioned absorption of the subsidiary Arcola Petrolifera Srl, through off-network customers (wholesalers, purchasing consortia, local authority-owned utility companies and resellers) and oil companies through a logistics network comprising both its own bases (at Sarroch) and those of third-party operators by way of a transit contract (Livorno, Civitavecchia, Marghera, Ravenna, Udine, Trieste, Lacchiarella, Arquata) as well as Deposito di Arcola Srl for the logistics management of the Arcola storage facility in Liguria;
   - in Spain, by Saras Energia SA, for third-party and Group-owned service stations, supermarkets and resellers via an extensive network of depots located throughout the country, the most important of which, the Cartagena terminal, is owned by the company itself.

3. **Generation of power by the combined-cycle plant** relates to the sale of electricity generated at the Sarroch power plant owned by Sarlux Srl. This sale is exclusive to GSE (Gestore dei Servizi Energetici SpA), and benefits from the CIP 6/92 concession system.

4. **The generation of power by wind farms** relates to the activity carried out at the Ulassai wind farm owned by subsidiary Sardeolica Srl.

5. **Other activities** include reinsurance activities undertaken for the Group by Reasar SA and research for environmental sectors undertaken by Sartec S.p.A..

The management monitors the operating results for individual business segments separately, in order to determine the allocation of resources and evaluate performance. The results of each segment are assessed on the basis of operating profits or losses. The breakdown by business segment and the basis on which segment results are determined are the same as in the consolidated financial statements for the year ended 31 December 2016.

4.2 Segment information

In order to present continuously and consistently the profits attributable to the various segments, in the event of corporate actions such as mergers or asset contributions, the intercompany transactions that are no longer carried out as the result of the such corporate actions continue to be reported based upon the conditions set forth in the previously existing contracts.

A breakdown by segment is shown below. For further details, please see the appropriate sections of the Report on Operations:

Income statement for the year ended 31 December 2017	REFINING	POWER	MARKETING	WIND	OTHER	TOTAL
Revenues from ordinary operations	8,135,691	500,340	1,793,115	8,481	33,417	10,471,044
to be deducted: intersectoral revenues	(2,833,151)	(54,628)	(3,077)	0	(21,787)	(2,912,643)
Revenues from third parties	**5,302,540**	**445,712**	**1,790,038**	**8,481**	**11,630**	**7,558,401**
Other operating revenues	178,744	20,991	7,665	20,243	652	228,295
to be deducted: intersectoral revenues	(98,569)	(273)	0	(258)	(494)	(99,594)
Other income from third parties	**80,175**	**20,718**	**7,665**	**19,985**	**158**	**128,701**
Depreciation/amortisation and write-downs	(116,600)	(51,100)	(5,525)	(4,552)	(655)	(178,432)
Gross operating result	**160,316**	**133,973**	**8,365**	**18,533**	**4,601**	**325,788**
Financial income (a)	195,137	11,745	438	68	17	207,405
Financial charges (a)	(198,406)	(326)	(2,945)	(130)	(20)	(201,827)
Income tax	(37,764)	(44,475)	(2,189)	(4,982)	(1,121)	(90,531)
Profit (loss) for the year	**119,284**	**100,917**	**3,670**	**13,489**	**3,476**	**240,836**
Total directly attributable activities (b)	**1,450,979**	**1,311,357**	**282,365**	**90,001**	**22,459**	**3,157,161**
Total directly attributable liabilities (b)	**1,529,174**	**247,581**	**273,812**	**21,394**	**12,904**	**2,084,865**
Intangible fixed assets	**182,633**	**16,595**	**396**	**509**	**852**	**200,985**
Investments in intangible fixed assets	**3,464**	**–**	**477**	**29**	**65**	**4,035**

Income statement for the year ended 31 December 2016	REFINING	POWER	MARKETING	WIND	OTHER	TOTAL
Revenues from ordinary operations	6,263,279	468,084	1,658,231	7,828	21,981	8,419,403
to be deducted: intersectoral revenues	(1,595,219)	(46,979)	(5,710)	0	(9,533)	(1,657,441)
Revenues from third parties	**4,668,060**	**421,105**	**1,652,521**	**7,828**	**12,448**	**6,761,962**
Other operating revenues	158,012	17,376	10,131	21,569	398	207,486
to be deducted: intersectoral revenues	(99,121)	(205)	(24)	(11)	(280)	(99,641)
Other income from third parties	**58,891**	**17,171**	**10,107**	**21,558**	**118**	**107,845**
Depreciation/amortisation and write-downs	(136,840)	(99,107)	(5,647)	(4,543)	(603)	(246,740)
Gross operating result	**281,478**	**82,978**	**4,208**	**19,218**	**3,463**	**391,345**
Financial income (a)	146,386	10,477	392	70	20	157,345
Financial charges (a)	(235,240)	(1,232)	(3,007)	(834)	(15)	(240,328)
Income tax	(65,485)	(23,735)	(16,880)	(5,346)	(586)	(112,032)
Profit (loss) for the year	**127,139**	**68,488**	**(15,287)**	**13,108**	**2,882**	**196,330**
Total directly attributable activities (b)	**2,013,357**	**468,166**	**302,383**	**94,714**	**21,241**	**2,899,861**
Total directly attributable liabilities (b)	**1,355,210**	**318,965**	**270,455**	**21,755**	**10,749**	**1,977,134**
Intangible fixed assets	**131,941**	**9,591**	**1,136**	**339**	**640**	**143,647**
Investment in intangible fixed assets	**1,656**		**304**			**1,960**

(a) Calculated without taking into account intercompany eliminations. For an assessment of intercompany transactions, see section 7.2 of the separate financial statements of Saras SpA.

(b) Total assets and liabilities are calculated after intercompany eliminations.

4.3 Breakdown by geographical area

The breakdown by geographical area takes into account the size of the reference market and the countries in which the registered offices of counterparties are located.

Directly attributable assets and investments by geographical area.

Directly attributable activities	31/12/2017	31/12/2016	Change
Italy	2,958,293	2,662,034	296,259
Other EEC countries	152,881	184,893	(32,012)
Non-EEC	45,987	52,934	(6,947)
Total	**3,157,161**	**2,899,861**	**257,300**

CAPEX	31/12/2017	31/12/2016	Change
PPE and intangible assets			
Italy	203,953	144,449	59,504
Other EEC countries	957	1,158	(201)
Non-EEC	110	0	110
Total	**205,020**	**145,607**	**59,413**

Net revenues from ordinary operations by geographical area

Revenues from ordinary operations	31/12/2017	31/12/2016	Change
Italy	2,214,026	1,861,344	352,681
Spain	249,742	974,889	(725,148)
Other EEC countries	922,056	1,297,485	(375,429)
Non-EEC	3,986,913	2,586,610	1,400,303
USA	185,664	41,634	144,030
Total	**7,558,401**	**6,761,962**	**796,438**

Amounts are shown net of inter-company eliminations.

The following table shows a breakdown of trade receivables by geographical area:

Trade receivables	31/12/2017	31/12/2016	Change
Italy	169,048	170,245	(1,197)
Spain	60,197	71,309	(11,112)
Other EEC countries	21,868	24,391	(2,523)
Non-EEC	128,170	172,316	(44,146)
USA	18,550	0	18,550
Bad debt provision	(6,433)	(14,640)	8,207
Total	**391,400**	**423,621**	**(32,221)**

The most significant changes to the statement of financial position and statement of comprehensive income compared with the previous year are illustrated below.

5. Notes to the statement of financial position

5.1 Current assets

5.1.1 Cash and cash equivalents

The following table shows a breakdown of cash and cash equivalents:

Cash and cash equivalents	31/12/2017	31/12/2016	Change
Bank and postal deposits	419,621	357,542	62,079
Cash	1,904	1,633	271
Total	**421,525**	**359,175**	**62,350**

Bank deposits are mainly attributable to Saras S.p.A. (EUR 374,135 thousand), Sarlux Srl (EUR 3,593 thousand), Sardeolica Srl (EUR 9,585 thousand), Saras Energia SAU (EUR 5,074 thousand) and Saras Trading SA (EUR 14,042 thousand). At the reporting date, there were no liens on the Group's cash and cash equivalents. For further details on the company's net debt position, reference is made to the relevant section of the Report on Operations or the cash flow statement.

5.1.2 Other financial assets

The table below shows the breakdown of other financial assets:

Current financial assets	31/12/2017	31/12/2016	Change
Bonds	0	482	(482)
Current financial derivatives	55,553	37,041	18,512
Deposits to secure derivatives	40,883	83,125	(42,242)
Other assets	1,855	14	1,841
Total	**98,291**	**120,662**	**(22,371)**

The item financial derivative instruments comprises both the positive fair value of existing instruments on the year-end date and the positive differentials realised and not yet received. For further details, see 5.3.1.
The item derivative guarantee deposits includes deposits requested by the counterparties with which the Group uses derivative instruments to guarantee open positions on the year-end date.

5.1.3 Trade receivables

Trade receivables totalled EUR 391,400 thousand, down on the previous year due to the reduction in the sales volumes at year end. The item is presented net of the provision for doubtful receivables, which amounts to EUR 9,449 thousand (EUR 14,640 thousand as at 31 December 2016).

5.1.4 Inventories

The following table shows a breakdown of inventories and the changes that occurred in the year:

Inventories	31/12/2017	31/12/2016	Change
Raw materials, consumables and supplies	326,606	165,755	160,851
Unfinished products and semi-finished products	62,596	59,961	2,635
Finished products and goods	378,892	303,308	75,584
Spare parts and raw materials, supplies	107,175	92,870	14,305
Total	**875,269**	**621,894**	**253,375**

The increase in oil inventories (crude, semi-finished and finished products) is largely due to the rise in the quantities in stock at year end and to price trends. The comparison with the recoverable amount did not result in significant write-downs.

No inventories are used as collateral for liabilities.

The item 'Finished products and goods held for resale' includes around 439 thousand tons of oil products (valued at around EUR 169 million) held for group companies and certain third parties in accordance with the obligations of Legislative Decree 22 of 31 January 2001 (in the previous year, these stocks amounted to 511 thousand tons valued at around EUR 220 million).

5.1.5 Current tax assets

Current tax assets break down as follows:

Current tax assets	31/12/2017	31/12/2016	Change
VAT credit	1,595	1,428	167
IRES credits	3,972	12,045	(8,073)
IRAP credits	12,960	11,818	1,142
Other amounts due from the tax authorities	6,035	11,111	(5,076)
Total	**24,562**	**36,402**	**(11,840)**

VAT credits mainly refer to the foreign subsidiaries, while the IRES credits relate to the excess amount resulting from the repeal of the Robin Hood Tax (EUR 8,443 thousand), which will be offset against the payment of other taxes. IRAP receivables relate to advances made in the year by the subsidiary Sarlux and are in excess with respect to the tax due.

Other tax credits include, in addition to taxes claimed for reimbursement or paid on a provisional basis, the recognition of the tax credit for the promotion of 2014/2015 investments pursuant to article 18 of Law decree no. 91/14, net of any tax payments for the year.

5.1.6 Other assets

The balance breaks down as follows:

Other assets	31/12/2017	31/12/2016	Change
Accrued income	1,565	216	1,349
Prepaid expenses	10,370	8,253	2,117
Other short-term loans	137,067	118,977	18,090
Total	**149,002**	**127,446**	**21,556**

Prepaid expenses mainly relate to insurance premiums and charges for the biofuel regulations for the Parent Company.

'Other receivables' mainly comprise:

- the credit of EUR 17,564 thousand due to the subsidiary Sarlux with the Equalisation Fund for the Electricity Sector for the recognition, pursuant to Title II, paragraph 7 *bis*, Cip regulation no. 6/92, of charges resulting from Directive 2003/87/EC (Emission Trading), in application of the Authority for Electricity and Gas June 11, 2008, ARG/elt 77/08, referring to the year 2017;

- recovery of the amount paid by Sarlux Srl to GSE of EUR 28,744 thousand, as described in section 7.1 (unchanged from the previous year);

- white certificates of EUR 49,741 thousand related to benefits assigned for energy savings obtained through specific projects preliminarily authorised by GSE, as described in section 7.1 (EUR 38,747 thousand at 31 December 2016);

- EUR 14,176 thousand due from the subsidiary Sarlux Srl following recognition of the status as an "energy-consuming enterprise" by the Electricity Sector Equalization Fund (EUR 17,959 thousand at 31 December 2016). The rebate is provided pursuant Decree Law no. 83 of 22 June 2012, which identifies companies with significant power consumption entitled to rebates on the payment of general system costs. The Company has already been classified as an "energy-consuming business" for 2013, 2014 and 2016 and thinks that it has the necessary requirements to obtain it for 2015 and 2017 as well.

5.2 Non-current assets

At 31 December 2017, goodwill and the intangible asset related to the contract for the sale of electricity to the subsidiary Sarlux Srl were tested for impairment in accordance with IAS 36. The impairment test was performed on the Cash Generating Units (CGUs) to which the above intangible assets were allocated, assuming the greater between the market value, if available, and the value in use that can be obtained from the multi-year plans approved by the competent Boards of Directors. These tests confirmed the recoverability of the carrying amounts.

The CGUs are identified taking into account how goodwill and other assets are monitored for internal purposes. In line with the Group's organisational business structure, CGUs match the operating sectors presented pursuant to IFRS 8 (Refining, Power, Wind) or areas of activity identified within the Marketing sector, in the presence of assets or groups of assets, whose recoverability can be directly correlated and measurable with respect to cash flows in specific entries and separable with respect to those present in the sector (Spanish Wholesale Network, Cartagena Storage Facility).

As described in greater detail below, goodwill and other assets subject to impairment testing, consisting mainly of the goodwill allocated to CGU Wind, the contract for the sale of electricity to GSE and activities related to managing the Cartagena terminal, have been the subject of impairment, estimating the value in use based on the discounted cash flow that can be gleaned from the most recent business plans developed for each Cash Generating Unit, approved by the competent Boards of Directors.

The forecasts contained in the plans represent the best estimate of the management on the future operating performance of the various CGUs, also taking into account the indications that can be derived from the main external sources of information comprising the forecasts of reference market trends formulated by the main specialist observers.

It is noted that at the reference date of these financial statements, the market capitalisation of Saras largely exceeded the equity of the Group resulting from the last interim consolidated statement of financial position approved.

For more detailed information, see the specific note at sub-paragraph 5.2.2 below.

5.2.1 Property, plant and equipment

The following table shows a breakdown of property, plant and equipment:

Historical Cost	31/12/2015	Increases	Decreases	Write-downs	Other changes	31/12/2016
Land and buildings	221,064	710		0	2,043	223,817
Plant and machinery	3,016,750	29,212		0	51,876	3,097,838
Industrial and commercial equipment	28,731	62		0	423	29,216
Other assets	523,259	991		0	14,688	538,938
Tangible fixed assets under construction	105,698	112,672		(20,000)	(62,806)	135,564
Total	**3,895,502**	**143,647**	**0**	**(20,000)**	**6,224**	**4,025,373**

Depreciation Fund	31/12/2015	Depreciation/ Amortisation	Use	Write-downs	Other changes	31/12/2016
Land and buildings fund	109,629	6,255			1,308	117,192
Plant and machinery fund	2,307,325	166,780			2,222	2,476,327
Industrial and commercial equipment	23,147	1,698			77	24,922
Other assets	421,855	17,364			3,450	442,669
Total	**2,861,956**	**192,097**	**0**	**0**	**7,057**	**3,061,110**

Net Value	31/12/2015	Increases	Decreases	Depreciation/ Amortisation	Write-downs	Other changes	31/12/2016
Land and buildings	111,435	710	0	(6,255)	0	735	106,625
Plant and machinery	709,425	29,212	0	(166,780)	0	49,654	621,511
Industrial and commercial equipment	5,584	62	0	(1,698)	0	346	4,294
Other assets	101,404	991	0	(17,364)	0	11,238	96,269
Tangible fixed assets under construction	105,698	112,672	0	0	(20,000)	(62,806)	135,564
Total	**1,033,546**	**143,647**	**0**	**(192,097)**	**(20,000)**	**(833)**	**964,263**

Historical Cost	31/12/2016	Increases	Decreases	Write-downs	Other changes	31/12/2017
Land and buildings	223,817	87	0	0	1,748	225,652
Plant and machinery	3,097,838	28,097	(5,773)	0	100,365	3,220,527
Industrial and commercial equipment	29,216	568	(9)	0	8,907	38,682
Other assets	538,938	11,050	(19,863)	0	36,538	566,663
Tangible fixed assets under construction	135,564	161,183	0	0	(153,313)	143,434
Total	**4,025,373**	**200,985**	**(25,645)**	**0**	**(5,755)**	**4,194,958**

Depreciation Fund	31/12/2016	Depreciation	Use	Write-downs	Other changes	31/12/2017
Land and buildings fund	117,192	5,811	(147)	0	(332)	122,524
Plant and machinery fund	2,476,327	116,516	(5,317)	0	(3,625)	2,583,901
Ind. and comm. equipment fund	24,922	2,353	(7)	0	(114)	27,154
Other assets	442,669	18,295	(19,795)	0	0	441,169
Total	**3,061,110**	**142,975**	**(25,266)**	**0**	**(4,071)**	**3,174,748**

Net Value	31/12/2016	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2017
Land and buildings	106,625	87	147	(5,811)	0	2,080	103,128
Plant and machinery	621,511	28,097	(456)	(116,516)	0	103,990	636,626
Industrial and commercial equipment	4,294	568	(2)	(2,353)	0	9,021	11,528
Other assets	96,269	11,050	(68)	(18,295)	0	36,538	125,494
Tangible fixed assets under construction	135,564	161,183	0	0	0	(153,313)	143,434
Total	**964,263**	**200,985**	**(379)**	**(142,975)**	**0**	**(1,684)**	**1,020,210**

Historical costs are shown net of grants received for investments. The original amount of grants deducted from property, plant and equipment was EUR 188,448 thousand, and related to the programme agreements entered into with the Ministry of Industry, Commerce and Crafts on 19 June 1995, with the Ministry of Productive Activities on 10 October 1997 and with the Ministry of Economic Development on 10 June 2002. The balance of these grants at 31 December 2017 was EUR 588 thousand (EUR 804 thousand at 31 December 2016).

"Land and buildings" chiefly include industrial buildings, offices and warehouses with a carrying amount of EUR 60,005 thousand, office buildings in Milan and Rome belonging to the Parent Company with a carrying amount of EUR 2,896 thousand and land largely relating to the Sarroch and Arcola sites belonging to the subsidiaries Sarlux Srl and Deposito di Arcola Srl, respectively, with a carrying amount of EUR 40,226 thousand.

"Plant and machinery" mainly relate to the refining and combined-cycle power plants at Sarroch.

The item 'Industrial and commercial equipment' includes equipment for the chemical laboratory and the control room for refining activities, as well as miscellaneous production equipment.

"Other assets" mainly include tanks and pipelines used to carry the group companies' products and crude oil (Sarlux Srl, Saras Energia SA and Deposito di Arcola Srl).

"Assets under construction and payments on account" include the costs incurred mainly for investment in tanks, and work to adapt and upgrade existing facilities, particularly for environmental, safety and reliability purposes.

The item increased by EUR 200,985 thousand year-on-year, mainly reflecting technological work on refinery plants.

The IGCC plant was depreciated in the past few years over its useful life which coincides with the term of the twenty-year contract for the sale of electricity under the CIP6 incentive-based tariff. The contract will expire in 2021. Based on the recent industrial strategies mirrored in the 2018/2021 business plan, the IGCC plant is expected remain in operation after 2021, generating electricity and other utilities (hydrogen and steam) for the refinery, selling only the excess amount to the market.

Consequently, its useful life was extended to 2031, based on an internal technical assessment and considering the investment plans for the conversion to the new use and the extraordinary maintenance necessary to extend the plant's useful life. Therefore, the forecast revision of the useful life resulted in a EUR 48 million reduction in the depreciation charge of the year.

The main depreciation rates used are as follows:

	for plants IGCC	per other fixed assets (annual base)
Industrial buildings (land and buildings)	until 2031	5.50%
Generic plant (plant and machinery)	until 2031	8.38%
Highly corrosive plant (plant and machinery)	until 2031	11.73%
Pipelines and tanks (plant and machinery)		8.38%
Thermoelectric power plant (plant and machinery)	until 2031	
Wind park (plant and machinery)		10.00%
Supplies (equipment plant and machinery)		25.00%
Electronic office equipment (other assets)		20.00%
Office furniture and machinery (other assets)		12.00%
Vehicles (other assets)		25.00%

There are no property, plant and equipment held for sale.

During the previous year, Sarlux Srl has been formally started to activities aimed to the acquisition of an additional ten-year renewal of concessions for the use of public lands on which the service facilities of the Sarroch refinery (wastewater treatment, desalination sea water, blow-down, flare and landing stage) are located, issued by the Port Authority of Cagliari and expired on 31 December 2015. The procedure was completed in 2017 with the renewal from the Cagliari Port authorities until 31 December 2027.

During the year, no financing costs were capitalised.

In accordance with the accounting standards applied by the Group, particularly IAS 36, the collection of assets and liabilities that comprises the logistics warehouse in Cartagena owned by the subsidiary Saras Energy was tested for impairment as of the date of these financial statements. The analysis showed that no impairment had taken place, and – as in previous years – it was therefore unnecessary to post any write-downs.

The test was performed by comparing the carrying amount with the recoverable amount, represented by the higher of fair value, net of selling costs, and value in use, as required by IAS 36.

The process was organised into the following phases:

a) **Definition of the CGUs**: the complex of facilities used for the storage of oil products in Cartagena owned by Saras Energy S.A. is identified as a CGU, i.e., as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets.

b) **Determination of the recoverable amount of the plants based on value in use**: In the absence of a binding agreement to sell the asset and an active reference market based on which the fair value can be determined, the recoverable amount of the plants was determined according to value in use, i.e., the present value of future cash flows expected to be derived from the CGU. In particular, the main assumptions were:

  - the time horizon of the cash flows has been considered until the end of 2030, the year in which the state concession ends;
  - the terminal value was determined as the present value of the perpetuity of cash flows generated at the end of the explicit forecast period of cash flows;
  - the discount rate (estimated average cost of capital – WACC) of 5.6%;
  - the scenario of the transit prices of petroleum products was considered stable in real terms, with an increase in the average tariff starting in 2018 in response to a different mix of services;
  - the transit volumes are projected, in the base case, to grow at an annual rate of zero;
  - an inflation rate of between 1.0% and 1.5% was estimated for the entire period;
  - the tax rate considered is equal to that in force in Spain (25%).

c) **Sensitivity analysis:** this analysis showed that a reasonable change in the key assumptions (the amount of products sold and the sale prices) results in changes in recoverable amounts that are not such to cause an impairment loss.

5.2.2 Intangible fixed assets

The following table shows the changes in intangible assets:

Historical Cost	31/12/2015	Increases	Decreases	Write-downs	Other changes	31/12/2016
Industrial patent and original work rights	42,607	1,182	0	0	0	43,789
Concessions, licences, trademarks and similar rights	48,829	0	0	0	0	48,829
Goodwill and intangible assets with indefinite life	21,909	0	0	0	0	21,909
Other	522,824	553	0	0	4,479	527,856
Intangible assets under construction	5,565	225	0	0	(3,456)	2,334
Total	**641,734**	**1,960**	**0**	**0**	**1,023**	**644,717**

Depreciation Fund	31/12/2015	Depreciation/ Amortisation	Use	Write-downs	Other changes	31/12/2016
Industrial patent and original work rights	35,706	988	0	0	3,667	40,361
Concessions, licences, trademarks and similar rights	23,154	1,030	0	0	(2,906)	21,278
Other	355,458	32,625	0	0	101	388,184
Total	**414,318**	**34,643**	**0**	**0**	**862**	**449,823**

Net Value	31/12/2015	Increases	Decreases	Depreciation/ Amortisation	Write-downs	Other changes	31/12/2016
Industrial patent and original work rights	6,901	1,182	0	(988)	0	(3,667)	3,428
Concessions, licences, trademarks and similar rights	25,675	0	0	(1,030)	0	2,906	27,551
Goodwill and intangible assets with indefinite life	21,909	0	0	0	0	0	21,909
Other	167,366	553	0	(32,625)	0	4,378	139,672
Intangible assets under construction	5,565	225	0	0	0	(3,456)	2,334
Total	**227,416**	**1,960**	**0**	**(34,643)**	**0**	**161**	**194,894**

Historical Cost	31/12/2016	Increases	Decreases	Write-downs	Other changes	31/12/2017
Industrial patent and original work rights	43,789	4,069	(13)	0	1	47,846
Concessions, licences, trademarks and similar rights	48,829	18	0	0	1,308	50,155
Goodwill and intangible assets with indefinite life	21,909	0	0	0	0	21,909
Other	527,856	0	(951)	0	(9,698)	519,898
Intangible assets under construction	2,334	29	(613)	0	(200)	1,550
Total	**644,717**	**4,116**	**(1,577)**	**0**	**(8,589)**	**641,358**

Depreciation Fund	31/12/2016	Depreciation	Use	Write-downs	Other changes	31/12/2017
Industrial patent and original work rights	40,361	2,001	(13)	0	(10)	42,339
Concessions, licences, trademarks and similar rights	21,278	1,030	0	0	2,123	24,431
Other	388,184	32,426	(370)	0	1,657	421,897
Total	**449,823**	**35,457**	**(383)**	**0**	**3,770**	**488,667**

Net Value	31/12/2016	Increases	Decreases	Depreciation/ Amortisation	Write-downs	Other changes	31/12/2017
Industrial patent and original work rights	3,428	4,069	(26)	(2,001)	0	37	5,507
Concessions, licences, trademarks and similar rights	27,551	18	0	(1,030)	0	(815)	25,724
Goodwill and intangible assets with indefinite life	21,909	0	0	0	0	0	21,909
Other	139,672	0	(1,321)	(32,426)	0	(7,924)	98,001
Intangible assets under construction	2,334	29	(613)	0	0	(200)	1,550
Total	**194,894**	**4,116**	**(1,960)**	**(35,457)**	**0**	**(8,902)**	**152,691**

Amortisation of intangible assets totalled EUR 35,457 thousand, and was calculated using the annual rates shown below.

Industrial patent rights and intellectual property rights	20%
Concessions, licences, trademarks and similar rights	3% – 33%
Other intangible assets	6% – 33%

There are no significant intangible assets with a finite useful life held for sale.

The main items are set out in detail below.

Concessions, licences, trademarks and similar rights

This item mainly refers to the concessions relating to Estaciones de Servicio Caprabo SA (merged into Saras Energia SA) for the operation of the service stations in Spain, and to Sardeolica Srl for the operation of the Ulassai wind farm, which will be fully amortised by 2026 and 2035, respectively.

Goodwill

This item mainly relates to goodwill originally recognised for the subsidiary Parchi Eolici Ulassai Srl (EUR 21,408 thousand), which was merged into Sardeolica Srl during the year. The goodwill was justified by the projection of future cash flows expected to be generated by until 2035, when its concessions expire.

In accordance with the Group's accounting policies, specifically IAS 36, goodwill was tested for impairment at the date of these consolidated financial statements. The analysis showed that no impairment had taken place, and – as in previous years – it was therefore unnecessary to post any write-downs.

The impairment testing process was organised into the following phases:

a) **Identification of CGUs:** Sardeolica Srl is identified as a CGU, i.e., as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets;

b) **Allocation of goodwill to the CGU:** goodwill is entirely attributable to the subsidiary Sardeolica Srl;

c) **Determination of the recoverable amount of goodwill based on value in use:** in the absence of a binding agreement to sell the asset and an active reference market based on which the fair value can be determined, the recoverable amount of goodwill was determined according to value in use, i.e., the present value of future cash flows expected to be derived from the CGU. In particular, the main assumptions were:

   - cash flows were projected for the period until the end of 2035, coinciding with the expiry of the concession obtained from the Ulassai municipality for the area in which the wind farm is located.

   - the discount rate (weighted average cost of capital or WACC) was 6.2%, which is specific to the sector (the rate used in 2016 was 7%);

   - the selling prices of the energy produced by the CGU were projected using a ratio provided by a leading independent company specialising in this sector and commonly used in the sector and by the Group in its own analyses.

   - the rate of inflation increased from 1.2% to 2.0% over the period analysed, according to estimates published by the IMF (International Monetary Fund);

   - a terminal value of zero was applied;

   - the tax rate applied was the current rate (24%).

d) **Sensitivity analysis:** this analysis showed that a reasonable change in the key assumptions (the quantity of electricity produced and the electricity sale prices) would result in changes in recoverable amounts that are not such to cause an impairment loss.

e) **External indicators:** lastly, no events took place during the year that had an impact on the production of wind power in general or that generated by the CGU in particular, which would lead to an impairment loss.

Other intangible assets

The subsidiary Sarlux Srl has entered into a long-term contract for the supply of electricity under the CIP6 regime signed with Gestore dei Servizi Elettrici SpA (GSE). This contract – which was originally recognised at fair value in the 2006 consolidated financial statements for EUR 547.5 million and amortised over its term – was measured over its term, in accordance IAS 36.

In the past few years, the carrying amount of this contract was always tested for impairment, based on the changes to the background and legislation.

As confirmed by the recent update of the 2018-2021 business plan, the useful life of the IGCC plant was extended to over the end of the contract for the sale of electricity to GSE under the CIP6 tariff, based on the use of the plant, mainly to support the energy needs of the refinery and to sell the electricity in excess to the market.

This change affecting the industrial strategy of the use of the plant was mirrored accordingly in the assessment model of the CIP6 Contract, which was based on the flows specifically generated by the Contract, separately from the relevant CGU.

Therefore, the estimate model of the contract applied up to 2016 was adjusted to bring it into line with the current scenario, by estimating directly the contract value based on the specific flows expected to be generated therefrom until its expiry.

The Excess Earnings Method was applied.

In brief, under this policy, the value is estimated based on the discounted cash flows which can be directly allocated to the intangible asset from which the charges (contributory asset charges or "CAC") related to the use of the assets necessary for generating such flows, are deducted. These flows were discounted based on the following assumptions:

- the gas and crude oil price scenario, as per the previous year, is provided by major independent market leader companies;

- the time horizon for cash flows was considered up to the end of the contract with GSE to sell electricity;

- the discount rate applied (WACC) is 6.44%, based on the current market situation (7.0% in 2016);

- a growing inflation rate (from 1.2% to 2.0%) was estimated for the period analysed;

- a 24% tax rate.

The analysis carried out, including the sensitivity analysis, supported by an independent appraisal report, confirmed that the carrying amount of the contract for the sale of electricity to GSE, net of the amortisation of the year, falls under the estimate range of the appraiser. Therefore, no impairment loss was recognised.

Intangible assets under construction and advance payments

The item includes investments underway to purchase software licences. No intangible assets with a finite useful life are held for sale.

5.2.3 Equity investments

The table below shows the list of equity investments at 31 December 2017, indicating the main information relating to subsidiaries:

Name	Registered office	Currency	Share Capital	Amount held of Group (%) as at 31-12-17	Amount held of Group (%) as at 31-12-16	Amount held on Share Capital	Shareholder	% by law voting	Investment relationship
Deposito di Arcola Srl	Arcola (SP)	Euro	1,000,000	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Sartec Saras Ricerche e Tecnologie Srl	Assemini (CA)	Euro	3,600,000	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Sarint SA and subsidiaries:	Luxembourg	Euro	50,705,314	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Saras Energia SAU and subsidiaries:	Madrid (Spain)	Euro	44,559,840	100.00%	100.00%	100.00%	Sarint SA	100.00%	Indirect Subsidiary
Terminal Logistica de Cartagena SLU	Cartagena (Spain)	Euro	3,000	100.00%	100.00%	100.00%	Saras Energia SA	100.00%	Subsidiary, sold
Reasar SA	Luxembourg	Euro	2,225,000	100.00%	100.00%	100.00%	Sarint SA	100.00%	Indirect Subsidiary
Sarlux Srl	Sarroch (CA)	Euro	100,000,000	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Parchi Eolici Ulassai Srl	Cagliari	Euro	0	0	100.00%	100.00%	Saras SpA	100.00%	Merged into Sardeolica
Sardeolica Srl and subsidiaries:	Cagliari	Euro	56,696	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Alpha Eolica Srl	Bucharest (Romania)	Leu	468,046	100.00%	100.00%	100.00%	Sardeolica Srl	100.00%	In Liquidation
Sargas Srl	Uta (CA)	Euro	0	0	100.00%	100.00%	Saras SpA	100.00%	Wound up
Saras Trading SA	Geneva (Switzerland)	Usd	1,000,000	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Consorzio La Spezia Utilities	La Spezia	Euro	122,143	5.00%	5.00%	5.00%	Deposito di Arcola Srl	5.00%	Other investments
Sarda Factoring	Cagliari	Euro	9,027,079	4.01%	4.01%	5.95%	Saras SpA	5.95%	Other investments

Compared to 31 December 2016, there were the changes already mentioned in the previous note 3.1.

As previously mentioned, equity investments in subsidiaries are consolidated on a line-by-line basis in these financial statements.

5.2.3.1 Other investments

Other investments break down as follows:

Other investments	31/12/2017	31/12/2016	Change
Consorzio La Spezia Utilities	7	7	–
Sarda Factoring	495	495	–
Total	502	502	–

5.2.4 Deferred tax assets

The balance at 31 December 2017, amounting to EUR 15,969 thousand net of deferred tax liabilities of foreign subsidiaries, is essentially made up of:

- the net deferred tax assets of the parent company Saras S.p.A. for EUR 5,854, mainly due to the tax accruals to the provisions for risks and charges;
- the net deferred tax assets of the subsidiary Sarlux Srl for EUR 12,021 thousand, of which, mainly:
  - **a)** deferred tax assets of EUR 44,479 thousand for the straight-line recognition of revenues – IAS 17 and IFRIC 4;
  - **b)** deferred tax assets of EUR 18,769 thousand for accruals to the provision for risks and charges of EUR 10,950 (mainly on energy efficiency certificates and CO_2) allowances, and the prudent impairment of plant and machinery of EUR 7,819;
  - **c)** deferred tax liabilities for EUR 24,543 thousand relating to the excess and accelerated depreciation;
  - **d)** deferred tax liabilities for EUR 25,110 thousand relating to the GSE contract value.

Net deferred tax assets are deemed recoverable against future profits, as determined in the most recent business plans.

The following table provides a breakdown of net deferred tax assets, including EUR 4,848 thousand for the deferred tax of Reasar SA, shown as a separate liability under 'Deferred tax liabilities'.

(In thousands of euros)	Amounts as at 31/12/2016	Provisions	Utilisations (- for def. tax assets + for def. tax liab.)	Other changes (only S/P)	Amounts as at 31/12/2017
Deferred tax liabilities					
Excess and expected depreciation	(33,081)	(310)	3,118		(30,273)
Adjustment of the value of land at fair value	(8,356)				(8,356)
Tax assessment of final balances	(4,228)	(1,703)	1,711		(4,220)
Corrections for planned maintenance plant and machinery	(63)		63		0
Removing of provision to fund for risks and charges subsidiaries	(4,719)	(150)			(4,869)
Employee benefits and bonuses	95	(21)			74
Unrealised exchange rate differences	(0)	(1,729)	253		(1,476)
Fair value derivatives	138				138
Fair value Sarlux/GSE contract	(33,480)		8,370		(25,110)
Cancellation goodwill depreciation	(978)		0	0	(978)
Measurement of Sardeolica licences	(4,092)		227		(3,865)
Others	(5,502)	(4,272)	26		(9,748)
Total deferred taxes	**(94,266)**	**(8,185)**	**13,768**		**(88,683)**
Deferred tax assets					
Risks and write-downs fund	15,338	2,397	(931)		16,804
Tax assessment of final balances	74		(105)		(31)
Other intangible fixed assets	0				0
Costs of dismantling and removing tangible assets	5,067	55			5,122
Corrections for planned maintenance plant and machinery	7,443	872	(103)		8,212
Employee benefits and bonuses	1,646	1,460	(1,415)		1,691
Unrealised exchange rate differences	3,380		(3,380)		(0)
Straight-line reporting Sarlux (IAS 17 and IFRIC 4)	68,807		(24,328)		44,479
Excess maintenance costs	416	76	(107)		385
Tax asset loss consolidated IRES tax return	10,422	2	(10,408)	(16)	0
Tax asset loss Saras Energia	0				0
Others	16,729	11,213	(4,800)	0	23,142
Total prepaid taxes	**129,322**	**16,075**	**(45,577)**	**(16)**	**99,804**
Net total	**35,056**	**7,890**	**(31,809)**	**(16)**	**11,121**

The reduction on 31 December 2016 amounts to EUR 23,806 thousand, mainly due to the recovery of the tax assets (EUR 10,422 thousand) as a result of tax losses carried forward offset against the taxable income of the year as part of the National Consolidated IRES Tax scheme in place between the Italian companies. The residual balance refers to the reabsorption of the temporary difference on the straight-line recognition of profits in accordance with IAS 17 and IFRIC 4.

With regard to the national tax consolidated scheme, the situation in respect of the consolidation agreements at the reporting date is shown below, as is the date of expiration of such agreements:

Consolidated	Start date	End date
Deposito di Arcola Srl	01/01/2016	31/12/2018
Saras Ricerche e Tecnologie S.p.A.	01/01/2016	31/12/2018
Sardeolica Srl	01/01/2017	31/12/2019
Sarlux Srl	01/01/2018	31/12/2020

The Parent Company has already proposed, by resolution of the Board of Directors, that Sarlux Srl renew its participation in the national tax consolidation scheme following expiry of the agreement on 31 December 2017. The option granted to the subsidiary, if taken up, must be exercised by next June.

The following table shows deferred tax assets/liabilities broken down into the current and non-current portions for 2017 and 2016:

(In thousands of euros)	2017 Short Term	2017 Medium-long term	2016 Short Term	2016 Medium-long term
Deferred tax liabilities				
Excess and expected depreciation	(3,118)	(27,155)	(8,534)	(24,547)
Adjustment of the value of land at fair value (as deemed cost)			0	(8,356)
Tax assessment of final balances	(4,220)		(4,228)	0
Corrections for planned maintenance plant and machinery			(63)	0
Removing of provision to fund for risks and charges subsidiaries	(4,869)		0	(4,719)
Employee benefits and bonuses	74		95	0
Unrealised exchange rate differences	(1,476)		0	(0)
Fair value Sarlux/GSE contract	(8,370)	(16,740)	(8,370)	(25,110)
Cancellation goodwill depreciation	(978)		(978)	0
Valuation licences Sardeolica (IFRS 3 on pur. 30% PEU)	(227)	(3,638)	(256)	(3,836)
Others	(473)	(17,493)	(230)	(5,272)
Total deferred taxes	**(23,657)**	**(65,026)**	**(22,425)**	**(71,841)**
Deferred tax assets				
Excess and expected contributions				
Risks and write-downs fund	8,454	8,350	3,122	12,216
Assessment of final balances on the basis of the FIFO cost	(31)		74	0
Costs of dismantling and removing tangible assets		5,122	0	5,067
Corrections for planned maintenance plant and machinery		8,212	0	7,443
Employee benefits and bonuses	1,691		1,646	0
Unrealised exchange rate differences			3,380	(0)
Straight-line reporting Sarlux (IAS 17 and IFRIC 4)	13,508	30,971	20,314	48,493
Excess maintenance costs	182	203	106	310
Tax asset loss consolidated IRES tax return			10,422	0
Others	4,335	18,807	4,530	12,199
Total prepaid taxes	**28,139**	**71,665**	**43,594**	**85,728**

5.2.5 Other financial assets

At 31 December 2017, this item amounts to EUR 7,740 thousand (EUR 5,750 thousand at 31 December 2016) and mainly relates to medium-/long-term receivables.

5.3 Current liabilities

5.3.1 Short-term financial liabilities

The following table provides a breakdown of short-term financial liabilities.

Short-term financial liabilities	31/12/2017	31/12/2016	Change
Current bank loans	496	15,525	(15,029)
Bank current accounts	4,163	38,644	(34,481)
Financial derivatives	53,731	71,783	(18,052)
Other short-term financial liabilities	124,678	77,425	47,253
Total	**183,068**	**203,377**	**(20,309)**

The item "Current bank loans" includes short-term bank loans assumed by the company, which are measured by the amortised cost method. The terms and conditions of the loans and bonds are explained in note “5.4.1 – Long-term financial liabilities”.

The item "Derivative instruments" includes the negative fair value of the derivatives held at financial year-end.

Financial derivatives	31/12/2017 Assets	31/12/2017 Liabilities	31/12/2016 Assets	31/12/2016 Liabilities
Interest rate swaps	302	(585)	0	(886)
Fair value derivatives on commodities	50,760	(52,255)	27,901	(68,900)
Fair value forward purchases and sales on exchange rates	0	(891)	4	(1,997)
Fair value forward purchases and sales on CO_2 allowances	4,491	0	9,136	0
Total	**55,553**	**(53,731)**	**37,041**	**(71,783)**

The following tables show the notional values and corresponding fair values of the derivatives outstanding at 31 December 2017 and 31 December 2016:

Type of Operation	31/12/2017				31/12/2016			
	Notional value		Fair value		Notional value		Fair value	
	Purchases	Sales	Pos.	Neg.	Purchases	Sales	Pos.	Neg.
oil and crude products	(96,995)	765,405	50,760	(52,255)	(458,391)	736,642	27,901	(68,900)
exchange rates	(255,000)	55,000	0	(891)	(192,951)	11,247	4	(1,997)
interest rates	(170,000)		302	(585)	(320,000)			(886)
quote CO_2	0		4,491	0	0		9,136	0
Total	**(521,995)**	**820,405**	**55,553**	**(53,731)**	**(971,342)**	**747,889**	**37,041**	**(71,783)**

The item "Other current liabilities" essentially includes receipts related to receivables sold with non-recourse factoring transactions without notification, received by customers and not relegated to the factors. This item also includes the interest accrued as requested by a trade counterparty on prior supplies. The definitive settlement took place in early 2018.

Bank loans and bonds are measured using the amortised cost method.

For further details, see the cash flow statement.

5.3.2 Trade and other payables

The table below shows a breakdown of this item:

Payables to suppliers	31/12/2017	31/12/2016	Change
Customers advances account	3,481	1,102	2,379
Payables to current suppliers	1,146,803	1,043,777	103,026
Total	**1,150,284**	**1,044,879**	**105,405**

“Customer advances” refers to payments on account received from customers for the supply of oil products; a few instances of this were identified at the end of the year.

“Payables to suppliers” mainly comprise payables related to the supply of crude oil. The increase on the previous year-end balance is substantially due to the rise in the purchase cost of raw materials in the last few months of the year.

5.3.3 Current tax liabilities

This item breaks down as shown below:

Current tax liabilities	31/12/2017	31/12/2016	Change
Payables for VAT	29,556	25,653	3,903
IRES payables (and income tax foreign firms)	28,364	207	28,157
IRAP payables	223	9,876	(9,653)
Other tax payables	62,223	67,076	(4,853)
Total	**120,366**	**102,812**	**17,554**

The decrease in ‘IRAP payables’ is due to the reduction in the smaller taxable income for the year of each Italian company, as described in the note to ‘current tax assets’.

‘IRES payables’ refer to the tax liability on the profit for the year of the Italian companies as part of the IRES tax consolidation scheme, which also allowed use of all losses carried forward, as described in the note to ‘deferred tax assets’.

"Other tax payables" mainly includes excise duties on products released for consumption by the Parent Company (EUR 53,131 thousand) and the subsidiary Saras Energia SA (EUR 4,663 thousand).

5.3.4 Other liabilities

A breakdown of other current liabilities is shown below:

Other current liabilities	31/12/2017	31/12/2016	Change
Payables employee benefit and social security institutions	11,658	10,733	925
Payables due to employees	22,009	20,148	1,861
Payables due to others	28,328	25,108	3,220
Accrued liabilities	1,421	1,213	208
Deferred income	13,348	14,971	(1,623)
Total	**76,764**	**72,173**	**4,591**

The item ‘Payables due to personnel’ includes salaries not yet paid for December, the portion of additional monthly payments accrued and performance bonuses for the achievement of business targets.

"Other payables" mainly refer to port taxes previously determined by the Customs Authority in respect of the Parent Company, for the 2005-2007 period. The appeal filed with the Provincial Tax Commission has seen the Company lose. A hearing should now be scheduled before the Regional Tax Commission.

5.4 Non-current liabilities

5.4.1 Long-term financial liabilities

This item breaks down as shown below:

Long-term financial liabilities	31/12/2017	31/12/2016	Change
Non-current bonds	198,342	0	198,342
Non-current bank loans	49,975	183,438	(133,463)
Other long-term financial liabilities	8,823	0	8,823
Total	**257,140**	**183,438**	**73,702**

On 22 December 2017, Saras S.p.A made a private placement of bonds for a total nominal amount of EUR 200 million. The bonds, maturing on 28 December 2022, will have a fixed coupon of 1.70% per year. The company applied for the admission to trading of bonds on the Austrian multilateral trading system, Third Market of the Wiener Börse AG.

The proceeds from the bond issue were used to refinance part of the existing gross indebtedness, despite a positive net

financial position, to support the investment plan which envisages measures to improve the site configuration, reliability and energy-efficiency projects and a major digitalisation project (Industry 4.0). This transaction will extend the average term of gross indebtedness, with the cost substantially unchanged.

Finally, on 29 December 2017, Saras repaid early the syndicated loan of a nominal amount of EUR 150 million.

Details of the terms and conditions of the loans are shown in the table below:

Values expressed in millions of euro	Commence-ment/ renegotiation of the payable	Original amount	Base rate	Residual at 31/12/2015	Residual at 31/12/2016	Maturities 1 year	beyond 1 year to 5 years	beyond 5 years	Guarantees
Saras SpA									
Pool financing	October 2016	150	6M Euribor	148.4	148.7	15	133.7		
Unicredit	October 2016	50	6M Euribor	49.7	49.7		49.7		
Pool financing	October 2016	265	6M Euribor	262.7	–				
Total liabilities to banks for loans				**460.8**	**198.4**	**15.0**	**183.4**		

Values expressed in millions of euro	Commence-ment/ renegotiation of the payable	Amount original	Rate base	Residual at 31/12/2016	Residual at 31/12/2017	Maturities 1 year	beyond 1 year to 5 years	beyond 5 years	Guarantees
Saras SpA									
Pool financing	October 2016	150	6M Euribor	148.7	–				
Unicredit	April 2017	50	6M Euribor	50.0	50.0		50.0		
Pool financing	October 2016	265	6M Euribor	–	–				
Bond	December 2017	200	1.70%	–	198.3		198.3		
Total liabilities to banks for loans				**198.7**	**248.3**	**0.0**	**248.3**		

The EUR 50 million loan, taken out by Saras S.p.A., is subject to the following covenants:

- financial covenants (involving compliance with the following ratios: Net debt/EBITDA <3.5 and net debt/equity <1.5, both ratios calculated on the basis of the Group's consolidated financial statements considering the previous 12 months).
- in corporate terms, mainly in relation to the company's ownership structure, a ban on changing business activities, reducing the share capital, selling the majority of its significant shareholdings or selling a significant portion of its non-current assets.

The loan was renegotiated during the year: the changes related to the interest rate.

Should the company fail to comply with these covenants, the lending party will have the right to request that the loan be repaid early.

The latest check revealed that the company complied with the above covenants.

5.4.2 Funds for risks and charges

Provisions for risks and charges break down as follows.

Funds for risks and charges	31/12/2015	Provisions	Use	Other changes	31/12/2016
Plant dismantling fund	18,979	73	0	0	19,052
Charges for CO_2 quotas fund	45,241	22,115	(29,466)	0	37,890
Other funds for risks and charges	26,206	24,406	(5,099)	0	45,513
Total	**90,426**	**46,594**	**(34,565)**	**0**	**102,455**

Provisions for risks and charges	31/12/2016	Provisions	Use	Other changes	31/12/2017
Plant dismantling fund	19,052	0	(13)		19,039
Charges for CO_2 quotas fund	37,890	32,327	(26,277)		43,940
Other funds for risks and charges	45,513	24,317	(10,724)		59,106
Total	**102,455**	**56,644**	**(37,014)**	**0**	**122,085**

The provisions for dismantling plants relate to the future costs of dismantling plant and machinery, which are made wherever there is a legal and constructive obligation to be met in this regard. It was revalued during the year, following the financial effect.

The Provision for CO_2 allowances, amounting to EUR 43,940 thousand, arises from the existence of quantitative limits on the CO_2 emissions of the plants established pursuant to Legislative decree no. 216 of 4 April 2006; exceeding these limits creates the obligation to purchase allowances in the market for any excess CO_2 emitted. The provisions in question represent allowances totalling EUR 32,327 thousand, required and not yet purchased.

During the year, EUR 26,277 thousand was used from the provisions to buy (and deliver) allowances relating to the previous year;

"Other risk provisions" mainly relate to provisions made to cover probable legal and tax liabilities, specifically the dispute with GSE related to white certificates (TEE); in addition, the item

includes a provision for charges related to the acquisition of the Versalis business unit that will be incurred by the subsidiary Sarlux Srl and reimbursed by the transferor.

5.4.3 Provisions for employee benefits

A breakdown of this item is shown below:

Provisions for employee benefits	31/12/2016	31/12/2015	Change
Post-employment benefits	10,250	10,541	(291)
Total	**10,250**	**10,541**	**(291)**

Post-employment benefits are governed by article 2120 of the Italian Civil Code and reflect the estimated amount that the company will be required to pay its employees when they leave the company. The liability accrued at 31 December 2006 was determined according to actuarial methods.

The following table shows the changes in "Post-employment benefits":

31/12/2015	11,351
Provision part for defined contributions	6,535
Interest	219
actuarial (income)/charges	230
Utilisations/ Contributions to supplementary funds or INPS Treasury	(7,794)
31/12/2016	**10,541**
Provision part for defined contributions	6,438
Interest	141
actuarial (income)/charges	260
Utilisations/ Contributions to supplementary funds or INPS Treasury	(7,130)
31/12/2017	**10,250**

Pursuant to IAS 19, the post-employment benefits fund was valued using the projected unit credit cost method and the following assumptions:

DEMOGRAPHIC ASSUMPTIONS	
Probability of death	Those of the Italian population calculated by ISTAT in 2002
Probability of invalidity	Those adopted in the INPS model for the projections to 2010
Probability of resignation	Annual frequencies of 0.5% have been considered
Probability of retirement	Achievement of the first of the pensionable requirements valid for General Compulsory Insurance is assumed
Probability of payout	An annual value per year of 3% is assumed

ECONOMIC ASSUMPTIONS	31/12/2017	31/12/2016
Increase in the cost of life:	1.50%	1.50%
Discount rate:	1.30%	1.31%
Salary increase:	2.50%	2.50%
Annual CPAS (pension fund) increase:	N.A.	N.A.

DEMOGRAPHIC ASSUMPTIONS	
Probability of death	Use of SIM 2002 tables broken down by gender
Probability of invalidity	Use of unisex C.N.R. tables
Probability of resignation	Use of constant annual rate, equal to the company's historical values
Probability of retirement	Achievement of the first of the pensionable requirements valid for A.G.B.
Probability of payout	An annual value per year of 3% is assumed

At 31 December 2017, the discount rate used was the IBOXX Eurozone Corporates AA10+ (1.30 %).

The actuarial calculation takes into account the changes to pensions legislation (Law decree no, 201/2011).

Given the accounting method used (see the paragraph entitled "Summary of accounting standards and policies" and sub-paragraph Q "Provisions for employee benefits"), at 31 December 2015 there were no actuarial gains or losses not recognised in the financial statements.

As required by IAS 19 (revised), a sensitivity analysis of the main actuarial assumptions as at 31 December 2016 and 2015 for post-employment benefits are indicated:

2017	Reference parameter change	
	-0.5%	0.5%
ANNUAL DISCOUNT RATE	11,668	10,486
	Reference parameter change	
	-0.5%	0.5%
ANNUAL INFLATION RATE	10,695	10,978
	Reference parameter change	
	-0.5%	0.5%
ANNUAL TURNOVER RATE	11,012	11,081

2016	Reference parameter change	
	-0.5%	0.5%
ANNUAL DISCOUNT RATE	10,640	11,898
	Reference parameter change	
	-0.3%	0.3%
ANNUAL INFLATION RATE	11,429	11,063
	Reference parameter change	
	-0.5%	0.5%
ANNUAL TURNOVER RATE	11,095	11,284

5.4.4 Deferred tax liabilities

Deferred tax liabilities, totalling EUR 4,848 thousand, relate to the foreign subsidiaries. For more details, please see "5.2.4 Deferred tax assets".

5.4.5 Other non-current liabilities

Other non-current liabilities break down as follows:

Other non-current liabilities	31/12/2017	31/12/2016	Change
Deferred income straight-line reporting Sarlux/Gse	158,747	245,946	(87,199)
Other payables	1,313	1,313	0
Total	**160,060**	**247,259**	**(87,199)**

The change compared with 31 December 2016 is mainly due to the decrease in "Deferred income" posted by the subsidiary Sarlux Srl. The item in question relates to the agreement for the sale of energy between Sarlux Srl and G.S.E. which was accounted for according to IFRIC 4. (Gestore dei Servizi Energetici SpA). Revenues from the sale of energy are calculated on a straight-line basis since the electricity supply contract, pursuant to IAS 17 (Leases) and IFRIC 4 (Determining Whether an Arrangement Contains a Lease), has been recognised as a contract regulating the use of the plant by the customer of Sarlux Srl, meaning that it is comparable to an operating lease. These revenues have therefore been accounted for on a straight-line basis in accordance with both the term of the contract (20 years) and forecasts for the price of crude oil and gas, which are determining factors for electricity tariffs and electricity production costs.

5.5 Equity

Equity comprises the following:

Total equity	31/12/2017	31/12/2016	Change
Share capital	54,630	54,630	0
Legal reserve	10,926	10,926	0
Other reserves	765,904	660,841	105,063
Net profit (loss) for the year	240,836	196,330	44,506
Total	**1,072,296**	**922,727**	**149,569**

Share capital
At 31 December 2017, the share capital of EUR 54,630 thousand, fully subscribed and paid up, comprised 951,000,000 ordinary shares without par value.

Legal reserve
The legal reserve was unchanged from the previous year and stood at one-fifth of the share capital.

Other reserves
This item of EUR 765,904 thousand increased by a net EUR 105,063 thousand on the previous year end.

The net decrease was the combined result of:

- An increase due to the allocation of the previous year's profit, of EUR 196,330 thousand;
- decrease due to the allocation of dividends, as approved by the Shareholders' Meeting on 20 April 2017 for EUR 93,601 thousand;
- an increase of EUR 1,810 thousand relating to the establishment of a reserve for the bonus allocation of shares to management under the companies' stock grant plans;
- an increase of EUR 751 thousand, due to the effect of IAS19 discounting;
- a decrease of EUR 227 thousand in the reserve for the translation of the financial statements of foreign operations.

Pursuant to IAS 1, sections 1 and 97, it is noted that no changes in equity were made with owners of the company's shares.

Net result
The consolidated net profit for the year totalled EUR 240,836 thousand.

Restrictions on the distribution of equity reserves
The main restrictions on the distribution of reserves are as follows:

- The legal reserve, totalling EUR 10.9 million, may only be used to cover losses.
- The item 'Locked-in reserve pursuant to article 7, paragraph 6 of Legislative Decree 38/05', totalling EUR 19.7 million and included in 'Other reserves', is distributable solely to cover losses or to increase share capital.

Dividends
On 20 April 2017, the Annual General Meeting of Shareholders of Saras S.p.A., convened to approve the financial statements closed as at 31 December 2016, resolved to pay a dividend of EUR 0.10 for each of the 936,010,146 ordinary shares in issue, for a total of EUR 93,601,014.60, taking them from profit for fiscal year 2015.

The Board of Directors made a proposal to the shareholders' meeting called on 27 April 2018 to distribute a dividend of EUR 0.12 per share for 2017.

The average number of shares outstanding was 936,010,146 in 2017, compared to 934,893,839 in 2016.

At 31 December 2017, Saras SpA held 14,989,854 treasury shares in relation to the bonus allocation of shares to the management of group companies.

6. Notes to the Income Statement

6.1 Revenues

6.1.1 Revenues from ordinary operations

"Revenues from ordinary operations" break down as follows:

Revenues from ordinary operations	31/12/2017	31/12/2016	Change
Revenue from sales and services	7,092,688	6,320,390	772,298
Sale of electricity	453,012	429,030	23,982
Other remuneration	12,634	12,037	597
Change in contract work in progress	67	505	(438)
Total	**7,558,401**	**6,761,962**	**796,439**

The increase in "Revenues from sales and services" is largely due to the rise in the price of oil products during the year and to the slight increase in volumes sold.

Revenues from the sale of electricity include EUR 442,854 thousand relating to the gasification plant of subsidiary Sarlux Srl and EUR 8,481 thousand relating to the wind farm owned by subsidiary Sardeolica Srl

Revenues from the sale of electricity by Sarlux Srl reflect the effect of the straight-line recognition of profits, calculated (as set out in IAS 17 – Leases and in IFRIC 4 – Determining whether an arrangement contains a lease) over the residual term of the contract that expires in 2021, principally taking into account the tariff amount, the future scenarios of both crude and gas price and projections of the EUR/USD exchange rate until the contract expires. The projections are reviewed when there are significant changes.

It is worthy of note that, pending the settlement of the dispute with the AEEG (gas and electricity regulator) over the method of calculating the avoided fuel cost component for the purposes of these financial statements, revenues from the sale of electricity were determined in accordance with Law Decree 69/2013 ('Doing Decree'), which is less beneficial for the subsidiary.

Other payments are mainly attributable to revenues posted by the subsidiaries Sartec SpA and Reasar SA in their respective business segments.
Revenues from ordinary operations are broken down by business segment and geographical area in sections 4.2 "Segment information" and 4.3 "Breakdown by geographical area" above.

6.1.2 Other income

The following table shows a breakdown of "Other income":

Other operating revenues	31/12/2017	31/12/2016	Change
Compensation for storage of mandatory stocks	4,011	3,114	897
Sale various materials	503	938	(435)
Contributions	19,691	21,174	(1,483)
Ship tanks hire	483	2,821	(2,338)
Recovery for claims and compensation	397	1,247	(850)
CO_2 charges reimbursement	17,564	17,091	473
Other revenues	86,052	61,460	24,592
Total	**128,701**	**107,845**	**20,856**

The item "Contributions" primarily includes revenues related to the incentive-based tariff for the production of electricity from renewable sources, which replaced the reimbursement of green certificates, which are of benefit to the subsidiary Sardeolica Srl.

"Reimbursement of emissions trading charges" comprises the revenue recognised by the subsidiary Sarlux Srl, deriving from the reimbursement – pursuant to section II, point 7-*bis* of CIP Provision 6/92 – of charges relating to the application of Directive 2003/87/EC (Emission Trading), as per AEEG Resolution 77/08. The reduction compared to the previous year is mainly due to the change in the price of allowances.

The item "Other revenues" includes, among others, revenues earned by the subsidiary Sarlux for services rendered to leading players in the sector (totalling EUR 12,404 thousand) and revenues related to the reimbursement of white certificates accrued during the year (totalling EUR 15,310 thousand).

6.2 Costs

The following table shows a breakdown of the main costs.

6.2.1 Purchases of raw materials, replacement parts and consumables

Purchase of raw materials, consumables and supplies	31/12/2017	31/12/2016	Change
Purchase of raw materials	3,767,630	3,853,966	(86,336)
Purchase semi-finished products	198,324	266,002	(67,678)
Purchase supplies and consumables	80,469	76,275	4,194
Increase in property, plant and equipment	(4,637)	(2,853)	(1,784)
Purchase finished products	2,612,106	1,369,786	1,242,320
Change in inventories	(252,737)	(58,362)	(194,375)
Total	**6,401,155**	**5,504,814**	**896,341**

Costs for the purchase of raw materials, consumables and supplies rose by EUR 896,341 thousand on the previous year, mainly due to the above-mentioned increase in prices.

6.2.2 Cost of services and sundry costs

Cost of services and sundry costs	31/12/2017	31/12/2016	Change
Costs for services	568,789	548,516	20,273
Capitalisations	(23,647)	(27,432)	3,785
Costs for use of third-party goods	14,492	13,535	957
Provisions for risks	56,671	24,372	32,299
Trade receivables write-downs	35	54	(19)
Other operating costs	18,320	19,803	(1,483)
Total	**634,660**	**578,848**	**55,812**

Service costs mainly comprise maintenance, rentals, transport, electricity and other utilities, as well bank charges.

The increase on the previous year, amounting to EUR 20,273 thousand, is mainly due to the rise in technical and consulting services required by the Parent Company and the subsidiary Sarlux.

Provisions for risks mainly comprise the accrual for CO_2 allowances pertaining to 2017 and not yet purchased at 31 December 2017 and the above-mentioned accrual related to the dispute about white certificates (TEE).

"Other operating costs" chiefly comprise other than income taxes (combined municipal tax on property – IMU and, atmospheric emission taxes) and membership fees.

6.2.3 Personnel costs

"Personnel costs" break down as follows:

Personnel costs	31/12/2017	31/12/2016	Change
Salaries and wages	111,429	106,249	5,180
Increases in fixed assets for internal work	(10,517)	(4,778)	(5,739)
Social security contributions	32,173	31,875	298
Post-employment benefits	6,438	6,535	(97)
Other costs	3,918	4,462	(544)
Remuneration to the Board of Directors	3,626	3,717	(91)
Total	**147,067**	**148,060**	**(993)**

On 22 April 2016, the Shareholders' Meeting approved the "Long-term incentive plan for the management of the Saras Group" (the "2016-2018 Stock Grant Plan" or the "Plan"), assigning the Board of Directors all powers necessary and appropriate to implement the Plan.

The recipients of the Plan are the Directors with strategic responsibilities within the Company; the Directors of the Board of Italian and/or foreign subsidiaries controlled by the Company, and some other senior executives within the Group, including those with an independent employment contract.

Each beneficiary is assigned the right to receive free shares after achieving performance objectives determined in relation to:

- The relative positioning of the Total Shareholder Return of Saras compared to the TSR of a group of industrial companies that are part of the FTSE Italia Mid Cap.
- The positioning of the Refining margin made by the Group with respect to the EMC Benchmark margin.

6.2.4 Depreciation and write-downs

Depreciation and amortisation figures are shown below:

Depreciation and write-downs	31/12/2017	31/12/2016	Change
Depreciation of intangible fixed assets	35,457	34,643	814
Write-down and recovery value intangible fixed assets	0	20,000	(20,000)
Depreciation of tangible fixed assets	142,975	192,097	(49,122)
Total	**178,432**	**246,740**	**814**

Depreciation of property, plant and equipment decreased by EUR 49,122 thousand on 2016, mainly as a consequence of the change in the useful life of the IGCC plant, as described in note 5.2.1. to property, plant and equipment.

6.3 Financial income and charges

A breakdown of financial income and charges is shown below:

Financial income	31/12/2017	31/12/2016	Change
Bank interest income	154	653	(499)
Unrealised differences on derivatives	44,522	28,411	16,111
Realised differences on derivatives	63,204	68,404	(5,200)
Other income	(480)	804	(1,284)
Profit on exchange rates	96,857	57,512	39,345
Total	**204,257**	**155,784**	**48,473**

Financial charges	31/12/2017	31/12/2016	Change
Unrealised differences on derivatives	(42,978)	(56,805)	13,827
Realised differences on derivatives	(54,767)	(75,659)	20,892
Interest expenses on loans and other financial charges	(12,320)	(30,651)	18,331
Other financial charges	(7,709)	(5,934)	(1,775)
Exchange rate losses	(80,904)	(69,718)	(11,186)
Total	**(198,678)**	**(238,767)**	**40,089**

The item "Other financial charges" also includes early repayment fees and the renegotiation of bank loans already described previously.

The table below shows net income/charges by type:

Financial income and charges	31/12/2017	31/12/2016	Change
Net interest	(12,166)	(29,998)	17,832
Result of derivative instruments, of which:	9,981	(35,649)	45,630
Realised	*8,437*	*(7,255)*	*15,692*
Fair value of open positions	*1,544*	*(28,394)*	*29,938*
Net exchange rate differences	15,953	(12,206)	28,159
Others	(8,189)	(5,130)	(3,059)
Total	**5,579**	**(82,983)**	**88,562**

The fair value of derivative instruments in place at 31 December 2017 resulted in a net gain of EUR 1,544 thousand (compared with a net loss of EUR 28,394 thousand in 2016).

As shown, the main changes relate to net exchange rate differences, as well as gains/losses on derivatives. In this regard, please note that the derivative financial instruments being considered relate to hedging transactions for which "hedge accounting" has not been adopted.

6.4 Income tax

Income tax can be analysed as follows:

Income tax	31/12/2017	31/12/2016	Change
Current taxes	66,612	26,690	39,922
Net deferred tax assets	23,919	85,342	(61,423)
Total	**90,531**	**112,032**	**(21,501)**

Current taxes comprise IRES due on the results of Italian companies participating in the consolidated national tax scheme as well as IRAP. The increase is attributable to the higher taxable income of the year compared to 2016.

Deferred tax assets/liabilities relate to changes during the year in the temporary differences between amounts recognised in accordance with the Italian Civil Code and those recognised for tax purposes. The most significant changes arise from the full realisation of the tax asset on prior year tax losses (EUR 10,406

thousand) and the straight-line recognition of Sarlux pursuant to IAS 17 and IFRIC 4 (EUR 24,328 thousand).

The following table shows the temporary differences in the income statement:

Temporary differences in Income Statement:	TAXES 2017		TAXES 2016		
	(Deferred tax liabilities)	Deferred tax assets	(Deferred tax liabilities)	Deferred tax assets	Effect of changes in tax rates on previous balances
(Data in thousands of euros)					
Excess and anticipated depreciation on assets		2,808		11,415	
Assessment of final inventories	(97)		(7,735)		
Corrections for planned maintenance plant and machinery		832		1,697	
Employee benefits and bonuses		24	(741)		
Unrealised exchange rate differences	(4,856)			841	
Fair value Sarlux/GSE contract		8,370		9,420	
Straight-line reporting Sarlux (IAS 17 and IFRIC 4)	(24,328)		(15,079)		
Excess maintenance costs	(31)			73	
Valuation licences Sardeolica (IFRS 3 on pur. 30% PEU)		227	(769)		
Risks and write-downs fund		1,466		1,822	
Tax asset loss consolidated IRES tax return	(10,406)		(66,983)		(1,520)
Tax asset loss Saras Energia			(14,484)		
Other temporary differences		2,072	(3,298)		
TOTALS	(39,718)	15,799	(109,089)	25,268	(1,520)

Differences between the theoretical and effective IRES and IRAP tax rates for 2017 and 2016 are shown below (figures in EUR million):

IRES	2017	2016
RESULT BEFORE TAXES [A]	331.4	308.4
IRES THEORETICAL TAX [*24% IN 2017; *27.5% IN 2016] [B]	79.5	84.8
THEORETICAL TAX RATE [B/A*100] %	24.0%	27.5%
EFFECTIVE INCOME TAX [C]	78.5	99.0
EFFECTIVE TAX RATE [C/A*100] %	23.7%	32.1%

	TAX 2017	TAX RATE 2017	TAX 2016	TAX RATE 2016
Theoretical tax	79.5	24.0%	84.8	27.5%
Effect rebate art. 1 D.L. 201/2011 (A.C.E.)	(2.4)	-0.72%	(8.0)	-2.59%
Taxes previous years	0.0	0.00%	(3.0)	-0.97%
"Super ammortamento" scheme	(1.1)	-0.33%	0.0	0.00%
Effect elimination deferred tax assets (Saras Energia)	0.0	0.00%	17.5	5.67%
Other permanent differences	2.5	0.75%	7.7	2.50%
Effective tax	78.5	23.7%	99.0	32.1%

IRAP	2017	2016
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	320.80	391.30
DIFFERENCE BETWEEN ADJUSTED PRODUCTION VALUE AND COSTS (A)	320.8	391.3
IRAP THEORETICAL TAX [*3.9% IN 2017; *2.93% IN 2016] [B]	12.5	11.5
THEORETICAL TAX RATE [B/A*100] %	3.90%	2.93%
EFFECTIVE INCOME TAX [C]	12.0	13.0
EFFECTIVE TAX RATE [C/A*100] %	3.7%	3.3%

	TAX 2017	TAX RATE 2017	TAX 2016	TAX RATE 2016
Theoretical tax	12.5	3.90%	11.5	2.93%
Effect IRAP on foreign companies with a positive production value	(1.8)	-0.61%	(0.1)	-0.03%
Effects IRAP on reclassifications	0.0	0.00%	0.2	-0.11%
Effect different regional rates on production value	0.0	0.00%	2.2	0.57%
Not-recognisability Tax Asset for IRAP companies with negative EBIT	0.0	0.00%	(0.0)	-0.01%
Other permanent differences	1.3	0.41%	(0.8)	-0.09%
Effective tax	12.0	3.7%	13.0	3.3%

The IRAP theoretical tax rate for 2017 was calculated using the 3.9% ordinary rate, instead of the 2.93% soft rate, which was provisionally introduced by the Autonomous Region of Sardinia for 2016 (Regional law no. 5/2015).

7. Other information

For information on subsequent events, reference should be made to the relevant section in the Report on Operations.

7.1 Main legal actions pending

The parent company Saras S.p.A., Sarlux Srl and Sardeolica Srl operate in a highly complex legislative framework, as described by the directors in the "Risk analysis" paragraph of the Report on Operations.

The group companies are involved in legal disputes filed by different plaintiffs for various reasons. The main disputes are described below.

With respect to the subsidiary Sarlux Srl, there are ongoing disputes about the non-recognition of the categorisation of the IGCC plant as cogeneration and the subsequent alleged obligation to purchase "green certificates"; the companies producing electricity from non-renewable or cogeneration sources (pursuant to Legislative decree no. 79/99 and the Resolution of the Electricity and Gas Authority – AEEG – no. 42/02) are, in fact, required to purchase green certificates for a certain percentage of electricity fed into the grid.

Specifically:

i) Generation 2002-2005. An ad hoc AEEG committee, after inspecting the IGCC plant in 2007, came, ex post, to a different interpretation than what it made during the generation period relative to the above resolution. As a result, the AEEG deemed that the company was required to buy green certificates for the years from 2002 to 2005; Sarlux initiated administrative proceedings for all the years in question. In March 2015, the Council of State allowed, in its final decision, Sarlux's appeal for the 2002-2005 period, voiding the outcome of the inspection and the challenged acts that had obliged the company to buy green certificates. During the year, GSE completed the repayment of the amount paid by Sarlux.

ii) 2009 Generation. The Council of State, in its above-mentioned decision, did not pronounce on one of the points appealed (hydrogen produced by the plant qualifying as "useful heat"), an interpretation that, if allowed, would have enabled the subsidiary to qualify as a cogeneration plant with reference to 2009 production also. According to Sarlux, the reasons already submitted to the Council of State are well founded. Consequently, it initiated a new dispute to have its reasons about the cogeneration arising from the hydrogen produced as "useful heat" declared valid. This applies to all units, including the third one, in relation to which, meanwhile, it paid for the green certificates in February 2017, net of the expected reimbursement.

iii) 2011 and subsequent generation. As regards production in 2011, 2012, 2013, and 2014, the Company submitted the cogeneration declaration pursuant to the requirements of Resolution no. 42/02, as in previous years, since it considered the resolution still in effect. GSE instead deemed that, starting with the 2012 obligation (2011 and subsequent generation), the only reference regulation was that for High Yield Cogeneration (CAR) as set out in the Ministerial Decree of 4 April 2011, and therefore rejected the Company's request. Sarlux Srl therefore lodged various appeals with the Regional Administrative Court (TAR) with the aim of receiving confirmation that Resolution 42/02 is applicable or, if the regulation for High Yield Cogeneration is applicable, that cogeneration conditions were satisfied for the years in question. In the meantime, to avoid incurring administrative penalties, the Company purchased green certificates for the generation of years 2011, 2012, 2013, and 2014 in accordance with GSE's calculation totalling EUR 67.0 million and immediately submitted a claim for a refund to the AEEG, obtaining EUR 11.7 million for the production relative to 2011, EUR 15.1 million for 2012, EUR 14.6 million for 2013 and EUR 7.5 million for 2014. The appeal to the Regional Administrative Court relative to the 2012 production, which sought confirmation regarding the applicability of resolution 42/02, was rejected in February 2015; Sarlux Srl appealed to the Council of State in September 2015 arguing that the grounds for that appeal and petitions to the Regional Administrative Court that sought to obtain confirmation that cogeneration parameters had been observed, in the event that High-Yield Cogeneration regulations are valid and applicable for all years in question. Consequently, the Company did not recognise any expenses or revenue with reference to the generation from 2011 onward.

Furthermore, other assets (as described in note 5.1.6 – Other assets) include receivables for white certificates (TEE) related to benefits assigned for energy savings obtained through specific projects preliminarily authorised by GSE. In 2016, the latter commenced its inspections on all projects, although they had been already preliminary authorised. Upon completion of the inspections, GSE recalculated the portion of TEE pertaining to the Company to the extent of the projects inspected. The Group initiated an administrative dispute challenging the outcome of the above inspections. Its assessment of the risk arising from the possible outcome of the dispute was reflected in the financial statements.

The group companies were also subject to tax inspections and assessments by the tax authorities that led, in some cases, to disputes pending before tax courts.

Although the decisions made by the tax courts were contradictory with regard to the alleged violations, the company assumes that the probability of any liability is remote; where instead the liability was deemed probable, appropriate provisions were made.

7.2 Earnings per share

Earnings per share (EPS) is calculated by dividing the profit (loss) for the year by the weighted average number of Saras S.p.A. shares outstanding during the year, excluding treasury shares.

The net earnings per share totalled +25.73 Euro cents for the 2017 financial year and +21.00 Euro cents per share for 2016 financial year.

The average number of shares outstanding was 936,010,146 in 2017 and 934,893,839 in 2016. At 31 December 2017, Saras SpA held 14,989,454 treasury shares in relation to the bonus allocation of shares to the management of group companies.

Diluted earnings per share do not vary significantly from basic earnings per share.

7.3 Transactions with related parties

The transactions carried out by Saras with related parties mainly concern the exchange of goods, the provision of services and arrangements of a financial nature. The figures for commercial, miscellaneous and financial transactions with related parties are set out below, and information is provided on the largest transactions.

The effects on the statement of financial position of transactions or positions with related parties are summarised in the table below.

Description	Absolute value (Euro/000) and % on balance sheet 31/12/2017		Absolute value (Euro/000) and % on balance sheet 31/12/2016	
Related party transactions involving Saras Group's majority shareholders				
Trade receivables	66	0.02%	66	0.02%
Trade and other payables	0	0.00%	0	0.00%
Other operating revenues	91	0.07%	92	0.09%
Cost of services and sundry costs	(831)	0.14%	(1,203)	0.25%
Other related parties				
Liquid assets	20	0.01%	2,340	0.65%
Current financial liabilities	0	0.00%	(20,000)	9.83%
Cost of services and sundry costs	(49)	0.01%	(237)	0.04%

Other related party transactions mainly refer to financial transactions carried out with the UBI Banca Group which became a related party in the first half of 2016. These transactions took place before this event.

With regard to the above-mentioned transactions, contracts governing provision of services are settled with amounts in line with market conditions.

The effects of transactions or positions with related parties on the statement of financial position and the income statement are summarised in the table below.

Description	Absolute value (Euro/000) and % on balance sheet 31/12/2017			Absolute value (Euro/000) and % on balance sheet 31/12/2016		
	Related parts	Total	Incidence %	Related parts	Total	Incidence %
Liquid assets	20	421,525	0.00%	2,340	359,175	0.65%
Trade receivables	66	391,400	0.02%	66	423,621	0.02%
Trade and other payables	–	–	0.00%	–	–	0.00%
Current financial liabilities	0	183,068	0.00%	(20,000)	203,377	9.83%
Other operating revenues	91	128,701	0.07%	92	107,845	0.09%
Cost of services and sundry costs	(880)	634,660	0.14%	1,440	578,848	0.25%

The main cash flows with related parties are shown in the table below.

Transactions with related parties	2017	2016
(Increase) Decrease in trade receivables	0	46
Increase (Decrease) in trade payables	0	(3)
Cash flow from (for) activities in the year	**0**	**43**
Interest received (paid)	0	0
Cash flow from (for) investment activities	**0**	**0**
(Increase)/Decrease financial payables	20,000	0
Cash flow from (for) financial activities	**20,000**	**0**
Total cash flows towards related parties	**20,000**	**43**

The effects of cash flows with related parties are shown in the table below.

	Absolute value (Euro/000) and % on balance sheet 31/12/2017			Absolute value (Euro/000) and % on balance sheet 31/12/2016		
	Related parts	Total	Incidence %	Related parts	Total	Incidence %
Cash flow from (for) activities in the year	0	280,257	0.00%	43	275,189	0.02%
Cash flow from (for) investment activities	0	(116,242)	0.00%	–	(140,675)	0.00%
Cash flow from (for) financial activities	20,000	(93,939)	-21.29%	–	(633,035)	0.00%

7.4 Information pursuant to International Financial Reporting Standards 7 and 13 – Financial instruments: disclosures

To the extent that it is applicable to the Saras Group, the disclosure on financial instruments to be provided in financial statements and interim reports is mainly set out in IFRS 7 and 13.

IFRS 7 – Financial Instruments: Disclosures, requires entities to provide supplementary disclosures in financial statements that make it possible to evaluate:

a) the value of financial instruments with respect to the financial position and results of operations;

b) the nature and extent of the risks deriving from financial instruments to which the company is exposed during the year and at the reporting date, and the way in which this is managed.

IFRS 13 – Fair Value Measurement, which is applicable from 1 January 2013, requires supplementary disclosures on fair value, some of which is also required for interim reports. In general, the standard clarifies how fair value should be calculated for the purposes of financial statements, and it applies to all IFRS standards that require or permit fair value measurement or the presentation of information based on fair value.

Fair value hierarchy

Sub-paragraphs a) and b) of paragraph 93 of the standard in question require the submission of the amount of assets and liabilities measured at fair value broken down by fair value hierarchy. To this end, IFRS 13 defines a precise three-tier fair value hierarchy. The criterion used concerns the actual degree to which inputs used for the estimate can be observed. As such, the hierarchy establishes the various levels of reliability of fair value, depending on whether it is based on:

(a) unadjusted quotations taken from an active market – as defined by IAS 39 – for the assets and liabilities being measured (level 1);

(b) measurement techniques based on factors other than the quoted prices referred to above, which can either be observed directly (prices) or indirectly (derived from prices) on the market (level 2);

(c) measurement techniques that are not based on observable market data as a reference (level 3).

Based on the above, the following table shows assets and liabilities measured at fair value by the Group at 31 December 2017, broken down by fair value hierarchy:

Financial derivatives	31/12/2017 Assets	Fair value level 1	Fair value level 2	Fair value level 3	31/12/2017 Liabilities	Fair value level 1	Fair value level 2	Fair value level 3
Interest rate swaps	302		302		(585)		(585)	
Derivatives on commodities	50,760	50,760			(52,255)	(52,255)		
Exchange rate losses	0		0		(891)		(891)	
Derivatives on CO_2 quotes	4,491		4,491		0		0	
Total	**55,553**	**50,760**	**4,793**	**0**	**(53,731)**	**(52,255)**	**(1,476)**	**0**

The Group's criterion specifies that the transfer of financial assets and liabilities measured at fair value from one hierarchy to another is recognised on the date that the event that causes the transfer takes place.

Pursuant to sub-paragraph c) of paragraph 93, there were no reclassifications among the various levels of the fair value hierarchy during the year.

Measurement techniques

As shown in the table in the section above, financial instruments measured at fair value by the Saras Group largely consist of derivatives entered into by the Parent Company and the subsidiary Sarlux Srl to hedge the currency and interest rate risks, and the fluctuating price of oil and crude products and CO_2 emission allowances.

Specifically, the fair measurement of these instruments is carried out:

- for interest and exchange rate derivatives, based on regular official statements received from counterparties (financial intermediaries) with which the instruments were created;

- for commodity-based and CO_2 allowance derivatives, based on the account statements of open positions that are periodically received from the clearing broker through which these instruments are agreed.

For all types of derivatives described above, the fair value measurements received from the counterparties in open positions are verified by comparing them to the fair value measurement carried out within the Group for the same positions. These internal measurements are carried out using reference parameters observable on markets (spot and forward interest rates, exchange rates, and crude oil and oil product prices available in active regulated markets).

The valuation does not consider the counterparty risk as the effect is not significant considering the existing security deposits.

The Saras Group has no financial assets or liabilities that are measured at fair value level 3 pursuant to IFRS 13.

The criteria contained in the standard supplement those set out for the recognition, measurement and disclosure in the financial statements of the financial assets and liabilities listed in IAS 32 (Financial Instruments: Disclosure and Presentation) and in IAS 39 (Financial Instruments: Recognition and Measurement).

The standard applies to all entities and all types of financial instrument, except for shareholdings in subsidiaries, associates and joint ventures accounted for in accordance with IAS 27, 28 or 31, employers' rights and obligations arising from employee benefit schemes (IAS 19), contracts relating to business combinations (IFRS 3), insurance contracts (IFRS 4) and financial instruments, contracts and obligations relating to share-based payments (IFRS 2).

7.4.1 Information on the Statement of Financial Position

Sections 8 - 19 of IFRS 7 state that the carrying value of all financial instruments belonging to the categories set out in IAS 39 must be provided, as well as detailed information where the Group has opted to record financial assets or liabilities at fair value through profit and loss, or where it has reclassified financial assets or derecognised them from the accounts. The statement of financial position of the Saras Group at 31 December 2017 and 31 December 2016 is shown below, with details of the Group's financial instruments:

31/12/2017	Accounting value of financial derivatives categories, defined according to IAS 39							
	Financial instruments at fair value through the income statement		Investments owned until maturities	Loans and credits	Disposables for the sale	Other liabilities valued at amortised cost	Others	Residual at 31/12/2017
	Designated at Fair value	Owned for negotiation						
ASSETS								
Current assets	**0**	**57,407**	**0**	**941,135**	**0**	**0**	**961,505**	**1,960,049**
Cash and cash equivalents				421,525				421,525
Other financial assets		57,407		40,884				98,291
Titles held for the purpose of trading								
Derivative instruments		*57,407*						
Other current financial assets				*40,884*				
Trade receivables				391,400				391,400
Inventories							875,269	875,269
Current tax assets							24,562	24,562
Other assets		0		87,326			61,675	149,002
Emissions Trading Credit				*17,564*				
White certificates							*49,741*	
Others				*69,762*			*11,934*	
Non-current assets	**0**	**0**	**0**	**7,740**	**502**	**0**	**1,188,870**	**1,197,112**
Property, plant and equipment							1,020,210	1,020,210
Intangible assets							152,691	152,691
Other investments					502			502
Deferred tax assets							15,969	15,969
Other financial assets				7,740				7,740
Loans				*3,653*				
Other tax credits				*4,087*				
Total active financial instruments	**0**	**57,407**	**0**	**948,874**	**502**	**0**	**2,150,375**	**3,157,161**
LIABILITIES								
Current liabilities	**0**	**53,731**	**0**	**0**	**0**	**1,356,385**	**120,366**	**1,530,482**
Short-term financial liabilities		53,731				129,337		183,068
Bonds loans								
Bank loans guaranteed						*497*		
C/a advances						*4,163*		
Financial payables to non-consolidated companies and other payables						*124,678*		
Derivative instruments		*53,731*						
Trade and other payables						1,150,284		1,150,284
Current tax liabilities							120,366	120,366
Other liabilities						76,764		76,764
Other payables						*76,764*		
Non-current liabilities	**0**	**0**	**0**	**0**	**0**	**258,453**	**295,930**	**554,383**
Long-term financial liabilities						257,140		257,140
Bank loans guaranteed						*49,975*		
Bonds loans						*198,342*		
Other payables						*8,823*		
Risk funds							122,085	122,085
Provisions for employee benefits							10,250	10,250
Deferred tax liabilities							4,848	4,848
Other liabilities						1,313	158,747	160,060
Other payables						*1,313*		
Total passive financial instruments	**0**	**53,731**	**0**	**0**	**0**	**1,614,837**	**416,297**	**2,084,865**

31/12/2016	Accounting value of financial derivatives categories, defined according to IAS 39							
	Financial instruments at fair value through the income statement		Investments owned until maturities	Loans and credits	Disposables for the sale	Other liabilities valued at amortised cost	Others	Residual at 31/12/2016
	Designated at Fair value	Owned for negotiation						
ASSETS								
Current assets	**0**	**37,537**	**0**	**946,150**	**0**	**0**	**705,512**	**1,689,200**
Cash and cash equivalents				359,175				359,175
Other financial assets		37,537		83,125				120,662
Titles held for the purpose of trading								
Derivative instruments		*37,537*						
Other current financial assets				*83,125*				
Trade receivables				423,621				423,621
Inventories							621,894	621,894
Current tax assets							36,402	36,402
Other assets		0		80,229			47,216	127,446
Emissions Trading Credit				*17,091*				
White certificates							*38,747*	
Others				*63,138*			*8,469*	
Non-current assets	**0**	**0**	**0**	**5,750**	**502**	**0**	**1,198,932**	**1,205,184**
Property, plant and equipment							964,263	964,263
Intangible assets							194,894	194,894
Other investments					502			502
Deferred tax assets							39,775	39,775
Other financial assets				5,750				5,750
Loans				*4,885*				
Other tax credits				*865*				
Total active financial instruments	**0**	**37,537**	**0**	**951,900**	**502**	**0**	**1,904,444**	**2,894,384**
LIABILITIES								
Current liabilities	**0**	**71,783**	**0**	**0**	**0**	**1,248,646**	**102,812**	**1,423,241**
Short-term financial liabilities		71,783				131,594		203,377
Bonds loans								
Bank loans guaranteed						*15,525*		
C/a advances						*81,361*		
Financial payables to non-consolidated companies and other payables						*34,708*		
Derivative instruments		*71,783*						
Trade and other payables						1,044,879		1,044,879
Current tax liabilities							102,812	102,812
Other liabilities						72,173		72,173
Other payables						*72,173*		
Non-current liabilities	**0**	**0**	**0**	**0**	**0**	**184,754**	**358,942**	**548,416**
Long-term financial liabilities						183,438		183,438
Bank loans guaranteed						*183,438*		
Bonds loans								
Risk funds							102,455	102,455
Provisions for employee benefits							10,541	10,541
Deferred tax liabilities							*4,719*	*4,719*
Other liabilities						**1,317**	**245,946**	**247,263**
Other payables						**1,317**		
Total passive financial instruments	**0**	**71,783**	**0**	**0**	**0**	**1,433,401**	**461,755**	**1,971,657**

Financial instruments measured at fair value in the income statement comprise derivatives held by the Parent Company and the subsidiary Sarlux Srl, described in note 5.3.1.
The derivatives relate to commodities, interest rates and foreign exchange. The first type was entered into by the Parent Company to hedge the risks inherent in the business in which it operates, which stem from changes in the price of crude and oil products (futures, options and swaps). The second type was entered into by the Parent Company and the subsidiary to hedge the interest rate risk on loans. Finally, the third type was entered into by the Parent Company to hedge the currency risk on open currency positions.

All trade receivables and most other current and non-current receivables are classed as "Loans" since they consist of non-derivative financial assets with fixed or determinable payments that are not listed on any active market. The value entered in the financial statements is close to fair value.

With regard to the remaining financial assets and liabilities that are not directly measured at fair value, their carrying amount is close to their fair value.

Other financial liabilities valued at amortised cost include all the Group's financial liabilities and trade payables arising from the

Group's contractual obligations to deliver cash or other financial assets to another entity.

No financial assets valued at amortised cost were restated at fair value or vice versa; nor were any financial assets transferred and derecognised, with the exception of trade receivables sold on a 'without recourse' basis. An analysis of the contractual terms and conditions confirmed that the receivables in question could be derecognised.

All financial assets are booked on the trade date.

During the year, the company met all its obligations with respect to the scheduled repayment of loans in place at the end of the period.

7.4.2 Income Statement Information

Paragraph 20 of the standard in question requires companies to state the net gains or losses generated by financial assets and liabilities, broken down according to the various income statement items. This information may be provided in either the financial statements or the notes to the accounts. To avoid overloading the accounting statements with information, the Group has opted for the second alternative, as advised in the Appendix to the accounting standard itself.

The following tables therefore show details of income statement items for the current and the previous year.

31/12/2017	Net profits and losses, active and passive interests, fees and expenses generated from:								
	Financial instruments at fair value through the income statement		Investments owned until maturities	Loans and credits	Disposables for the sale	Other liabilities valued at amortised cost	Total from instruments financial	Others	Residual at 31/12/2017
	Designated at Fair value	Owned for negotiation							
Revenues from ordinary operations								7,558,401	7,558,401
Other income								128,701	128,701
Total returns	0	0	0	0	0	0	0	7,687,102	7,687,102
Purchases of raw materials, replacement parts and consumables								(6,401,155)	(6,401,155)
Cost of services and sundry costs								(634,660)	(634,660)
Personnel costs								(147,067)	(147,067)
Amortisation/depreciation and write-downs								(178,432)	(178,432)
Total costs	0	0	0	0	0	0	0	(7,361,314)	(7,361,314)
Operating result	0	0	0	0	0	0	0	325,788	325,788
Net income (charges) from equity investments									
Other financial income (charges)		*9,982*		*7,918*		*(12,320)*	5,580		5,580
from titles held for the purpose of trading							*0*		
- of which:									
Realised differentials									
Change of FV									
from interest on current accounts				*154*			*154*		
from loans made to Group companies							*0*		
from derivative instruments		*9,982*					*9,982*		
- of which:									
Realised differentials		*8,437*							
FV change		*1,545*							
from other financial assets							*0*		
from Interest on loans						*(12,320)*	*(12,320)*		
from Interest on factoring				*(3,405)*			*(3,405)*		
from other credits/debts				*11,169*			*11,169*		
Result before taxes	0	9,982	0	7,918	0	(12,320)	5,580	325,788	331,367
Income tax									(90,531)
Net result									240,836

31/12/2016	Net profits and losses, active and passive interests, fees and expenses generated from:								
	Financial instruments at fair value through the income statement		Investments owned until maturities	Loans and credits	Disposables for the sale	Other liabilities valued at amortised cost	Total from instruments financial	Others	Residual at 31/12/2016
	Designated at Fair value	Owned for negotiation							
Revenues from ordinary operations								6,761,962	6,761,962
Other income								107,845	107,845
Total returns	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**6,869,807**	**6,869,807**
Purchases of raw materials, replacement parts and consumables								(5,504,814)	(5,504,814)
Cost of services and sundry costs								(578,848)	(578,848)
Personnel costs								(148,060)	(148,060)
Amortisation/depreciation and write-downs								(246,740)	(246,740)
Total costs	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(6,478,462)**	**(6,478,462)**
Operating result	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**391,345**	**391,345**
Net income (charges) from equity investments									
Other financial income (charges)		*(35,649)*		*(19,191)*		*(28,142)*	(82,982)		(82,982)
from titles held for the purpose of trading							*0*		
- of which:									
Realised differentials									
Change of FV									
from interest on current accounts				*653*			*653*		
from loans made to Group companies							*0*		
from derivative instruments		*(35,649)*					*(35,649)*		
- of which:									
Realised differentials		*(7,255)*							
CHANGE OF FV		*(28,394)*							
from other financial assets							*0*		
from Interest on loans						*(28,142)*	*(28,142)*		
from Interest on factoring				*(2,434)*			*(2,434)*		
from other credits/debts				*(17,409)*			*(17,409)*		
Result before taxes	**0**	**(35,649)**	**0**	**(19,191)**	**0**	**(28,142)**	**(82,982)**	**391,345**	**308,362**
Income tax									(112,032)
Net result									**196,330**

Financial instruments measured at fair value through profit or loss generated net income of EUR 9,982 thousand (versus net charges of EUR 44,329 thousand in 2016), due to changes in realised differentials and changes in the fair value of the derivatives.

Financial instruments recorded under "Loans" generated income of EUR 7,918 thousand (versus charges of EUR 19,191 thousand in the previous year), chiefly owing to exchange differencies on trade accounts.

Other financial liabilities measured at amortised cost generated losses of EUR 12,320 thousand (EUR 28,142 thousand in the previous year), mainly due to interest on loans.

7.4.3 Supplementary information

7.4.3.1 Accounting for derivative transactions

As stated earlier, the Parent Company enters into derivative contracts on commodities to hedge the risks arising from changes in the price of crude oil and oil products, on CO_2 emission allowances, on the EUR/USD exchange rate to hedge against the risks relating to its currency positions, and on interest rates, to hedge against interest rate risk on its loans.

At 31 December 2017, outstanding derivatives contracts included derivatives on all three types of underlying assets, classified as financial instruments held for trading.

These instruments are recorded at fair value: changes in fair value during the period are recorded in the income statement under financial income or financial charges.

The outstanding positions on commodities and on foreign exchange at the reporting date are expected to be closed out by the end of the first quarter of 2018, while the interest rate swaps have the same duration as the underlying loans to which they refer.

7.4.3.2 Fair value

Financial assets and liabilities, with the exception of derivatives, are recognised at amortised cost. As these assets and liabilities mainly relate to positions underlying trade agreements due to be settled in the short term, or, alternatively, are long-term in

nature and subject to interest rates in line with current market rates, the amortised cost does not differ significantly from the fair value at 31 December 2017.

The bond carries a fixed rate and market values from the relevant stock market are not available. The value of the related cash flows, discounted to present value at the market rate, does not differ significantly from the value recorded in the financial statements.

In accordance with the amendment to IFRS 7 implemented in the EU with EC Regulation 1165 of 27 November 2009, all financial instruments booked at fair value are calculated based on valuation methods that use observable market parameters other than the prices of these instruments as their reference, except for forex and commodities futures classified under "Other current assets" or "Short-term financial liabilities", which are valued based on prices in an active market; moreover, during the year there were no changes in valuation methods compared with the previous year.

7.4.4 Risks deriving from financial instruments

Risks deriving from financial instruments to which the Group is exposed are:

a. Credit risk: i.e. the risk that the Group will incur a loss in the event that a counterparty to a financial instrument defaults;

b. Liquidity risk: i.e. the risk that the Group will be unable to service payment obligations arising from the agreed maturities of its financial liabilities;

c. Market risk: i.e. the risk relating to the performance of markets in which the Group operates, which incorporates foreign exchange risk, interest rate risk and the price risk of crude and oil products.

For information on risk management policies concerning the above, please refer to the relevant section of the Report on Operations.

7.4.4.1 Credit risk

The company's exposure to credit risk relates mainly to trade receivables, other current and non-current receivables, assets held for trading and cash and cash equivalents.

The information required by sections 36-38 is shown in the tables below.

	Accounting value at 31/12/2017		Credit risk		Analysis of maturities by financial activity, ex paragraph 37 b) IFRS 7						Value impairment loss	
	Total	of which: financial instruments	Maximum exposure at credit risk, without consideration of guarantees o other similar instruments	Guarantees	Current	Expired				Total	Determined in the financial year	Progressive
						0-30 days	31-60 days	61-90 days	beyond 90 days			
Current assets	**1,960,049**	**1,016,361**	**1,016,361**	**167,814**	**947,128**	**1,320**	**8,546**	**8,535**	**50,831**	**1,009,928**		
Cash and cash equivalents	421,525	421,525	421,525		421,525					421,525		
Other financial assets held for trading	98,291	98,291	98,291		98,291					98,291		
Trade receivables	397,833	397,833	397,833	167,814	328,601	1,320	8,546	8,535	50,831	391,400		
Bad debt provision	(6,433)									0	0	(6,433)
Inventories	875,269	0										
Current tax assets	24,562	0										
Other assets	149,002	98,712	98,712		98,712					98,712		
Non-current assets	**1,197,112**	**5,504**	**5,504**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		
Property, plant and equipment	1,020,211	0										
Intangible assets	152,690	0										
Other investments	502	502	502									
Deferred tax assets	15,969	0										
Other financial assets	7,741	5,002	5,002							0		
Total assets	**3,157,161**	**1,021,865**	**1,021,865**	**167,814**	**947,128**	**1,320**	**8,546**	**8,535**	**50,831**	**1,009,928**		

	Accounting value at 31/12/2016		Credit risk		Analysis of maturities by financial activity, ex paragraph 37 b) IFRS 7						Value impairment loss	
	Total	of which: instruments financial	Maximum exposure at credit risk, without consideration of guarantees o other similar instruments	Guarantees	Current	Expired				Total	Determined in the financial year	Progressive
						0-30 days	31-60 days	61-90 days	beyond 90 days			
Current assets	**1,960,049**	**1,016,361**	**1,016,361**	**248,123**	**988,084**	**17,041**	**3,309**	**28,342**	**20,011**	**1,050,356**		
Cash and cash equivalents	421,526	421,526	421,526		421,526					421,526		
Other financial assets held for trading	98,290	98,290	98,290		98,290					98,290		
Trade receivables	397,833	397,833	397,833	248,123	369,557	17,041	3,309	28,342	20,011	431,828		
Bad debt provision	(6,433)									0	(110)	(6,433)
Inventories	875,269	0										
Current tax assets	24,563	0										
Other assets	149,002	98,712	98,712		98,712					98,712		
Non-current assets	**1,197,112**	**5,504**	**5,504**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		
Property, plant and equipment	1,020,211	0										
Intangible assets	152,690	0										
Other investments	502	502	502									
Deferred tax assets	15,969	0										
Other financial assets	7,741	5,002	5,002							0		
Total assets	**3,157,162**	**1,021,865**	**1,021,865**	**248,123**	**988,084**	**17,041**	**3,309**	**28,342**	**20,011**	**1,050,356**		

Guarantees on trade receivables comprise sureties required by Saras S.p.A. of wholesale customers, a credit insurance policy taken out by the Company that covers the majority of its turnover, and letters of credit that guarantee a portion of Parent Company receivables.

7.4.4.2 Liquidity risk

The company's exposure to liquidity risk relates mainly to trade payables and bank loans. The capacity for self-financing, together with the low level of debt, leads us to consider that the liquidity risk is moderate.

As stated earlier, during the year the Group met all its obligations with respect to the payment of loans in place at the end of the period.

The comparative quantitative disclosures required by section 39 of the relevant accounting standard are set out in the table below.

	Accounting value at 31/12/2017		Liquidity risk		Analysis of maturities for financial liabilities, ex paragraph 39 a) IFRS 7					
	Total	of which: instruments financial	Value nominal of the liabilities financial	Guarantee	2018	2019	2020	2021	2022	beyond 5 years
LIABILITIES										
Current liabilities	**1,530,482**	**1,410,114**	**1,410,114**	**0**	**1,410,123**	**0**	**0**	**0**	**0**	**0**
Short-term financial liabilities	183,068	183,067	183,067	0	183,075					
Bonds loans		*0*	*0*		*0*					
Amount interest bonds										
Bank loans guaranteed		*496*	*496*		*496*					
C/a advances		*4,163*	*4,163*		*4,163*					
Interest rates (final average rate = 1.76%)					*9*					
Financial payables to non-consolidated companies and other payables		*124,678*	*124,678*		*124,678*					
Derivative instruments		*53,731*	*53,731*		*53,731*					
Trade and other payables	1,150,284	1,150,284	1,150,284		1,150,284					
Current tax liabilities	120,366	0								
Other liabilities	76,764	76,764	76,764		76,764					
Non-current liabilities	**554,383**	**258,457**	**251,317**	**0**	**5,090**	**6,407**	**54,650**	**4,210**	**202,105**	**0**
Long-term financial liabilities	257,140	257,140	250,000	0	5,090	5,090	54,650	4,210	202,105	0
Bank loans guaranteed		*49,975*	*50,000*				*50,000*			
Bonds loans		*198,342*	*200,000*						*200,000*	
Others		*8,824*								
Medium-long term loan rates (final average rate = 1.76%)					*880*	*880*	*440*	*0*	*0*	
Amount interest bonds					*4,210*	*4,210*	*4,210*	*4,210*	*2,105*	
Risk funds	122,085									
Provisions for employee benefits	10,250									
Deferred tax liabilities	4,848									
Other liabilities	160,060	1,317	1,317			1,317				
Total liabilities	**2,084,865**	**1,668,571**	**1,661,431**	**0**	**1,415,213**	**6,407**	**54,650**	**4,210**	**202,105**	**0**

	Accounting value at 31/12/2016		Liquidity risk		Analysis of maturities for financial liabilities, ex paragraph 39 a) IFRS 7					
	Total	of which: instruments financial	Value nominal of the liabilities financial	Guarantee	2017	2018	2019	2020	2021	beyond 5 years
LIABILITIES										
Current liabilities	**1,423,241**	**1,320,429**	**1,320,429**	**0**	**1,321,085**	**0**	**0**	**0**	**0**	**0**
Short-term financial liabilities	203,377	203,377	203,377	0	204,032					
Bonds loans		*0*	*0*		*0*					
Amount interest bonds										
Bank loans guaranteed		*15,525*	*15,525*		*15,525*					
C/a advances		*81,361*	*81,361*		*81,361*					
Interest rates (final average rate = 4.22%)					655					
Financial payables to non-consolidated companies and other payables		*34,708*	*34,708*		*34,708*					
Derivative instruments		*71,783*	*71,783*		*71,783*					
Trade and other payables	1,044,879	1,044,879	1,044,879		1,044,879					
Current tax liabilities	102,811	0								
Other liabilities	72,173	72,173	72,173		72,173					
Non-current liabilities	**548,416**	**184,754**	**186,317**	**0**	**7,807**	**38,491**	**35,908**	**83,587**	**45,950**	**0**
Long-term financial liabilities	183,438	183,438	185,000	0	7,807	37,174	35,908	83,587	45,950	0
Bank loans guaranteed		*183,438*	*185,000*			30,000	*30,000*	*80,000*	*45,000*	
Bonds loans										
Medium-long term loan rates (final average rate = 4.22%)					*7,807*	*7,174*	*5,908*	*3,587*	*950*	
Amount interest bonds										
Risk funds	102,455									
Provisions for employee benefits	10,541									
Deferred tax liabilities	4,719									
Other liabilities	247,263	1,317	1,317			1,317				
Total liabilities	**1,971,657**	**1,505,184**	**1,506,746**	**0**	**1,328,892**	**38,491**	**35,908**	**83,587**	**45,950**	**0**

7.4.4.3 Market risk

As stated previously, the market risks to which the Group is exposed via its financial instruments relate to:

- the EUR/USD exchange rate, which affects the value of cash and cash equivalents and the receivables and payables recorded at the reporting date, and which determines the exchange rate gains and losses recorded under "Financial income" or "Financial charges" as well as the fair value of derivatives held at the reporting date;
- the Euribor interest rate, to which the interest rates paid by the Group on its loans are indexed, as well as the fair value of derivative instruments held at the reporting date.
- prices of crude oil and oil products, which affect the fair value of the derivatives in place at the reporting date.

As required by section 40 of IFRS 7, a sensitivity analysis for every type of risk to which the Group is exposed at the reporting date has been prepared, which shows the effects of these risks on the income statement and equity. The ranges used in the sensitivity analysis (exchange rate, interest rate and crude price) are in line with management's forecasts. The results of the analysis are shown in the tables below.

Euro/US dollar exchange rate

With reference to the EUR/USD exchange rate, at the reporting date, the Saras Group had financial instruments denominated in the latter currency recorded mainly under trade receivables and payables (principally relating to the Parent Company).

The Group carried out a simulation of the impact on net profit and equity, assuming a change of +/- 10% in the EUR/USD exchange rate at the end of the year, which was used to translate currency positions in the preparation of the statement of financial position.

2017				Reference parameter change	
Euro/US dollar EXCHANGE RATE					
Balance sheet item	Amount in currency	Exchange Euro / US Dollar	Amount in (thousands of €)	-10%	+10%
Currency net position	(125,483)	1.1993	(109,358)		
Effect on result before tax				(12,151)	9,942
Effect on net result (and equity)				(8,336)	6,820

The following table shows the simulation at 31 December 2016:

2016				Reference parameter change	
Euro/US dollar EXCHANGE RATE					
Balance sheet item	Amount in currency	Exchange Euro / US Dollar	Amount in (thousands of €)	-10%	+10%
Currency net position	(92,268)	1.0541	(48,682)		
Effect on result before tax				(5,409)	4,426
Effect on net result (and equity)				(3,711)	3,036

To hedge the effects of sensitivity to the EUR/USD exchange rate, the Parent Company also enters into forward exchange rate contracts, which are recognised at their fair value at the reporting date. As fair value is inevitably affected by the underlying exchange rate, the Group carried out a simulation of the impact on the Group's profit (loss) for the year and equity, assuming a change of +/-10% in the benchmark parameters. The results of the simulation are shown in the tables below.

2017			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2017	-10%	+10%
Exchange rates	(891)	17,590	(16,017)
	(891)	17,590	(16,017)
Effect on result before tax		17,590	(16,017)
Effect on net result (and equity)		12,753	(11,612)

2016			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2016	-10%	+10%
Exchange rates	(1,997)	20,167	(16,502)
	(1,997)	20,167	(16,502)
Effect on result before tax		20,167	(16,502)
Effect on net result (and equity)		14,621	(11,964)

Interest rates

The Group has medium/long-term as well as short-term exposure to variable interest rates indexed to Euribor.

A simulation of the impact of this variable on Group net profit and equity was carried out, assuming a change of +/- 50 basis points in rates and only taking into account the portion of variable-rate funding.

The analysis measures the impact in terms of greater or lower interest expense that would have accrued on floating-rate loans in 2017.

The results of the simulation are shown in the table below.

2017				
VARIABLE INTEREST RATES			Reference parameter change	
	Average annual rate of interest 2017	Passive interest annual	-50 bps	+50 bps
Short and medium-long term financial liabilities	2.11%	(12,166)		
Effect on result before tax			2,890	(2,890)
Effect on net profit (and equity)			2,095	(2,095)

2016				
VARIABLE INTEREST RATES			Reference parameter change	
	Average annual rate of interest 2017	Passive interest annual	-50 bps	+50 bps
Short and medium-long term financial liabilities	4.22%	(29,998)		
Effect on result before tax			3,551	(3,551)
Effect on net profit (and equity)			2,574	(2,574)

In addition, the fair value of the Interest Rate Swaps (IRS) and interest rate options outstanding at the reporting date relating to the Parent Company and Sardeolica Srl is affected by the fluctuations in the Euribor rate: a simulation of the impact of this variable on the profit for the year and equity was carried out, assuming a change of +/- 25 basis points in rates, which was considered appropriate given potential rate fluctuations (the simulation for the previous year was adjusted).

The results of the simulation are shown in the tables below.

2017		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2017	-25 bps	+25 bps
Fair value of Interest rate swaps	(597)	(385)	(936)
	(597)	(385)	(936)
Effect on result before tax		(385)	(936)
Effect on net result (and equity)		(279)	(679)

2016		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2016	-25 bps	+25 bps
Fair value of Interest rate swaps	(886)	316	232
	(886)	316	232
Effect on result before tax		316	232
Effect on net result (and equity)		229	168

Prices of crude and oil products

Oil prices affect the fair value of derivatives outstanding at the reporting date and the relevant differences recognised in the income statement: derivatives at 31 December 2017 consisted of futures, swaps and options on oil products, and the fair value recorded in the statement of financial position was derived from the market prices of the relevant underlying assets at that date. The Group therefore carried out a simulation of the impact of this variable on net profit and consequentially, on equity, assuming a change of +/- 20% in oil prices.

The comparative results of the simulation are shown in the tables below.

2017			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2017	-20%	+20%
Crude and oil products	(1,495)	47,166	(50,029)
	(1,495)	47,166	(50,029)
Effect on result before tax		47,166	(50,029)
Effect on net result (and equity)		34,196	(36,271)

2016			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2016	-20%	+20%
Crude and oil products	(40,532)	85,413	(85,413)
	(40,532)	85,413	(85,413)
Effect on result before tax		85,413	(85,413)
Effect on net result (and equity)		61,925	(61,925)

The above analysis of the Group's exposure to risks relating to financial instruments shows that there are no significant concentrations of risk in terms of counterparty, geographical area or market; the concentration risk relating to exposure to US dollars is mitigated by the hedging policies implemented.

7.5 Average staff numbers

The average numbers of staff working at companies included in the perimeter of consolidation, divided by category, are shown below.

average staff numbers	2017	2016
Top management	63	55
White collars	1,289	1,183
Intermediates	0	69
Blue collars	582	607
Total	1,934	1,914

The Group's employees increased from 1,924 at the end of 2016 to 1,944 at 31 December 2017.

7.6 Remuneration of senior personnel with strategic responsibilities

In 2017, senior personnel with strategic responsibilities received remuneration totalling EUR 1,904 thousand. For further details, please see section 7.5.1 of the notes to the financial statements of Saras SpA.

For information on indemnities in the event of the early termination of employment of directors and succession plans for executive directors (pursuant to article 114.5 of Legislative decree no. 58 of 24 February 1998), see the annual report on corporate governance and ownership structure pursuant to article 123-*bis* of Legislative decree no. 58 of 24 February 1998.

7.7 Commitments

At 31 December 2017 and 2016, the Group had made no irrevocable, multi-year commitments to purchase materials or services.

As part of its normal activities, the Parent Company issued sureties totalling EUR 237,407 thousand at 31 December 2018, mainly in favour of subsidiaries and bodies, such as Customs Agencies and the Ministry of Defence.

7.8 Disclosure of external auditor's fees

Pursuant to article 149-*duodecies* of the Consob Issuer Regulations, the table below provides details of the fees relating to 2017 paid to the independent auditors the provision of audit and other non-audit services and the services provided by the network companies.

Types of services	Service provider of the service	Recipient	Consideration of competence of the 2017 financial year
Audit	EY SpA	Saras SpA	641
	EY SpA	Subsidiaries Italy	167
	Network EY	Subsidiaries abroad	168
Net income			976
Certification services	EY SpA	Saras SpA	2
	EY SpA	Subsidiaries Italy	2
Net income			4
TOTAL			980

The audit fees also include those related to the specific procedures carried out by the independent auditors on specific issues which arose during the year, and the fees related to the issue of the Non-financial statement report pursuant to Legislative decree no. 254/2016.

7.9 Others

No atypical and/or unusual transactions were carried out during the year.

8. Publication of the consolidated financial statements

In its meeting on 12 March 2018, Saras' Board of Directors authorised publication of the consolidated financial statements. At the same meeting, the Board vested the Chairman and the CEO with separate powers to include in the Report on Operations and/or the notes to the accounts any further detailed information deemed necessary or appropriate to provide a clearer picture of operations to shareholders.

For the Board of Directors
The Chief Executive Officer
Massimo Moratti

REPORT ON OPERATIONS OF SARAS SPA

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REPORT ON OPERATIONS OF SARAS SPA

Saras SpA is the Parent Company and operates in the Italian and international oil markets buying and selling refined oil products. This has already been analysed in detail in the Report on Operations of the Saras Group, which can be consulted for further information, as well as for a detailed analysis of the market, regulatory framework, principal events in the year, significant events after the end of the year and the business outlook.

In 2017, Saras SpA posted revenue of EUR 7,850 million, up by EUR 1,873 million on the previous year as a consequence of the trend in oil prices.

KEY PROFIT AND LOSS FIGURES

EUR million	2017	2016	Change
Revenue	7,850	5,977	1,873
EBITDA	284	361	(77)
EBIT	282	359	(77)
NET RESULT	207	162	45

EBITDA was equal to EUR 284 million, down on the previous year as a result of lower average refining margins recorded in 2017.

The net profit for the year, totalling EUR 207 million, was affected by that described above for the operating results.

As at 31 December 2017 Saras SpA had net debt of EUR 184 million, as compared to a net debt of EUR 116 million recorded at the end of 2016.

The following information is provided pursuant to article 2428 of the Italian Civil Code:

- Intangible assets do not include research and development costs;
- Transactions with subsidiaries, associates and companies controlled by the latter are shown in the Notes to the financial statements under 7.2 “Transactions with related parties”;

For information about the use of financial instruments by the company, see the following section of this report, “Risk analysis”.

The only secondary place of business of the Company is the General and Administrative Headquarters, located in Milan, at via dell'Unione 1.

Information about remuneration and shareholdings of directors and auditors, general managers and key managers is shown in the Notes to the financial statements under 7.5.

Finally, for the analysis of the main litigation pending please refer to the notes in section 7.1 "Main Litigation Pending", while reference is made to the relevant section of the Consolidated Financial Statements of the Saras Group for:

- Corporate Governance
- Structure of the Group;
- Atypical and/or unusual transactions;
- Performance indicators and non-financial indicators;
- Information about staff;
- Information about the environment.

RISK ANALYSIS

The main principles of the risk policy are based on the prevention of the main risks inherent in the objectives and are related to the strategic, operational and financial areas. Risk management in the company's individual policies and processes is based on the principle that operational and financial risk is managed by the process owner. The main risks are reported and discussed by top management in order to create a basis on which to hedge, secure and measure residual risk. In addition to the guidelines for risk management, there are also specific guidelines for financial risks, such as interest rate and credit risk.

Financial risks

The company's priorities include sustainable growth, productivity, profitability and quality of financial data. The financial structures therefore focus on ensuring that credit lines are implemented and used to maximum efficiency to develop the commercial business and reduce to a minimum the financial risks inherent in industrial management (adverse risk). The company operates internationally in the oil sector, and is therefore exposed to exchange rate risk, interest rate risk, credit risk and price risk.

Risk of changes in prices and financial flows

The results are influenced by changes in oil prices and the effects of such changes on refining margins (being the difference between the price of oil products generated in the refining process and the price of raw materials, principally crude oil). Furthermore, as part of its activities, the company is required to maintain adequate stocks of crude oil and finished products, and the value of the stocks is subject to fluctuations in market prices.

The risk of changes in prices and the corresponding cash flows is closely linked to the nature of the business and can only be partially mitigated by using appropriate risk management policies, including entering into processing contracts with third parties at partially pre-set prices. To hedge the risks arising from price variations, the company enters into derivative contracts in commodities, which involve the forward buying and selling of crude oil and products.

Exchange rate risk

The oil business is exposed to fluctuations in exchange rates as the reference prices for buying crude oil and, for the sale of some products, are quoted in or pegged to the US dollar. To reduce both its exchange rate risk in future transactions and the risk inherent in assets and liabilities denominated in a different currency to the functional currency of each entity, the company sets up derivative instruments which consist of buying and selling currencies (US dollars) forward. Transactions expressed in currencies other than US dollars are not significant and could only have a very low impact on the results for the year.

Interest rate risk

The risks relating to changes in cash flows linked to changes in interest rates arise from loans. Variable-rate loans are exposed to the risk that cash flows may change due to interest rates. Fixed-rate loans are exposed to the risk that the fair value of the funds received may change.

The main loan agreements outstanding have been entered into at variable market rates. The company's policy is to use derivative instruments to reduce the risk of changes in interest cash flows.

Credit risk

The market in which the company operates mainly consists of multinational companies operating in the oil sector. Transactions executed are generally settled very quickly and are often guaranteed by primary credit institutions. Furthermore, loans are systematically and promptly monitored on a daily basis by the Finance department. This risk is minimal and does not constitute a significant variable in the business in which the company operates.

Liquidity risk

The Group funds its activities using both its own operating cash flows and external financing sources, and is therefore exposed to a liquidity risk relating to its ability to meet its contractual obligations under loan agreements it has entered into. However, given the Group's strong self-financing capacity, coupled with its good track record in meeting debt obligations, the liquidity risk is very low.

Other risks

Risk related to the procurement of crude oil

A significant part of the crude oil refined by the company comes from countries which are subject to higher political, social and economic risks than other countries. Legislative, political and economic changes and social upheaval could have a negative impact on trade relations between Saras and such countries, which would have a significant negative impact on the company's financial position and operating results.

Risks relating to stoppages in production at the refinery

A significant proportion of the company's activities depend on the refinery owned by the subsidiary Sarlux Srl, which is located in Sardinia and produces almost all the refined oil products sold. This business is subject to risks relating to stoppages due to unscheduled closures of the plants and to accidents. Saras believes that the refinery's capacity means that the negative effects of unscheduled closures are limited, and that the security plans that the subsidiary has implemented (and continues to implement) reduce the risks of accidents to a minimum. In addition, the Saras Group has significant insurance cover against such risks.

Protection of Personal Data

Pursuant to the provisions of Legislative Decree 196 of 30 June 2003 "Norms related to the protection of sensitive personal data", the Group adopted all minimum safety measures required in Annex B to such Decree (Article 34); in particular, the Safety Document (DPS), as required by item 19 of the afore-mentioned Annex B, was updated on 31 March 2012.

PROPOSALS OF THE BOARD OF DIRECTORS

To the Shareholders,

Your company's separate financial statements as at 31 December 2017 show a net profit of EUR 207,061,533. If you agree with the principles used to prepare the financial statements and the accounting standards and policies implemented therein, we propose that the following resolutions be passed:

The Shareholders' Meeting

- having examined the company's separate financial statements at 31 December 2017;
- having seen the statutory auditors' report to the shareholders' meeting pursuant to article 153 of Legislative Decree 58/1998 (the Consolidated Law on Finance, TUF);
- having viewed the external auditor's report on the separate financial statements as at 31 December 2017;

votes

a) to approve the separate financial statements of the company for the year ended 31 December 2017 in their entirety and in relation to individual items;

b) to pay a dividend of EUR 0.12 for each of the 936,010,146 ordinary shares in issue, for a total of EUR 112,321,217.52, taking them from profit;

c) to pay the dividend on 23 May 2018 (dividend coupon stripping: 21 May 2018).

For the Board of Directors
The Chief Executive Officer
Massimo Moratti

SEPARATE FINANCIAL STATEMENTS OF SARAS SPA AT 31 DECEMBER 2017

SARAS SPA – STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

Thousands of euros	(1)	(2)	31/12/2017	31/12/2016
ASSETS				
Current assets	**5.1**		**1,587,098**	**1,315,857**
Cash and cash equivalents	5.1.1	A	378,236	271,901
of which with related parties:			20	2,340
Other financial assets	5.1.2	B	95,289	149,007
of which with related parties:			22,256	48,023
Trade receivables	5.1.3	C	356,247	382,230
of which with related parties:			88,167	44,441
Inventories	5.1.4	D	726,627	482,535
Current tax assets	5.1.5	E	3,105	12,241
Other assets	5.1.6	F	27,594	17,943
of which with related parties:			13,369	4,048
Non-current assets	**5.2**		**729,488**	**731,025**
Property, plant and equipment	5.2.1	H, I	12,398	4,344
Intangible assets	5.2.2	J	3,734	2,402
Equity investments valued at cost	5.2.3.1	L	697,233	697,743
Other investments	5.2.3.2	L	495	495
Deferred tax assets	5.2.4	X	8,330	20,809
Other financial assets	5.2.5	M	7,298	5,232
Total assets			**2,316,586**	**2,046,882**
LIABILITIES AND EQUITY				
Current liabilities	**5.3**		**1,433,513**	**1,348,977**
Short-term financial liabilities	5.3.1	R	407,618	358,481
of which with related parties:			250,993	181,035
Trade and other payables	5.3.2	R	870,577	764,511
of which with related parties:			207,943	73,438
Tax liabilities	5.3.3	X	86,873	74,032
Other liabilities	5.3.4	R	68,445	151,953
of which with related parties:			34,991	
Non-current liabilities	**5.4**		**275,696**	**205,869**
Long-term financial liabilities	5.4.1	R	257,140	183,438
Provisions for risks and charges	5.4.2	P, Z	12,172	12,687
Provisions for employee benefits	5.4.3	Q	2,510	2,772
Other liabilities	5.4.4	R	3,874	6,972
Total liabilities			**1,709,209**	**1,554,846**
EQUITY	5.5	N, O, W		
Share capital			54,630	54,630
Legal reserve			10,926	10,926
Other reserves			334,759	264,036
Net result			207,062	162,444
Total equity			**607,377**	**492,036**
Total liabilities and equity			**2,316,586**	**2,046,882**

(1) Please refer to the Notes to the consolidated financial statements, section 5 "Notes on the Statement of Financial Position"

(2) Please refer to the Notes, section 3.3 "Summary of accounting standards and policies"

SARAS SPA – STATEMENT OF INCOME FOR 2017

Thousands of euros	(1)	(2)	01/01/2017 31/12/2017	of which non-recurring	01/01/2016 31/12/2016	of which non-recurring
Revenues from ordinary operations	6.1.1	S	7,778,855		5,909,723	
of which with related parties:			*646,564*		*316,135*	
Other income	6.1.2	S	71,627		67,550	
of which with related parties:			*36,282*		*38,227*	
Total returns			**7,850,482**	***0***	**5,977,273**	***0***
Purchases of raw materials, replacement parts and consumables	6.2.1	T	(6,933,478)		(4,952,932)	
of which with related parties:			*(843,804)*		*(5,264)*	
Cost of services and sundry costs	6.2.2	T, Z	(598,700)		(631,078)	
of which with related parties:			*(387,544)*		*(446,779)*	
Personnel costs	6.2.3	T, Q	(33,742)		(32,456)	
Amortisation/depreciation and write-downs	6.2.4	H, J	(2,285)		(1,712)	
Total costs			**(7,568,205)**	***0***	**(5,618,178)**	***0***
Operating result			**282,277**	***0***	**359,095**	***0***
Net income (charges) from equity investments	6.3	L, W	(40)		(18,298)	
of which with related parties:			(40)		(18,298)	
Financial income	6.4	U, Y	192,254		141,266	
of which with related parties:			*2,600*		*806*	
Financial charges	*6.4*	*U, Y*	*(188,784)*	*(7,709)*	*(230,495)*	*(5,934)*
of which with related parties:			*(350)*		*(395)*	
Result before taxes			**285,707**	***(7,709)***	**251,568**	***(5,934)***
Income tax	6.5	X	(78,645)	*1,850*	(89,124)	
Net result			**207,062**	***(5,859)***	**162,444**	***(5,934)***

SARAS SPA – STATEMENT OF COMPREHENSIVE INCOME FOR 2017

Thousands of euros		01/01/2017 31/12/2017	01/01/2016 31/12/2016
Net result (A)		**207,062**	**162,444**
Components of total profit that may subsequently be reclassified in the profit (loss) for the year			
Components of total profit that may not subsequently be reclassified in the profit (loss) for the year			
Actuarial effect IAS 19 on employee post-employment benefits	Q, T		
Other profit/(loss), net of the fiscal effect (B)		**0**	**0**
Total net result (A + B)		**207,062**	**162,444**
Total consolidated result for the period attributable to:			
Shareholders of the parent company		207,062	162,444
Third-party minority interests		0	0

(1) Please refer to the notes to the separate financial statements, section 6 "Notes to the Income Statement"

(2) Please refer to the Notes, section 3.3 "Summary of accounting standards and policies"

SARAS SPA – STATEMENT OF CHANGES IN EQUITY FOR 2017

Thousands of euros	Share Capital	Legal reserve Legal	Other Reserves	Profit (Loss) Financial year	Total assets net
Balance as at 31/12/2015	**54,630**	**10,926**	**174,504**	**247,841**	**487,901**
Period 01/01/2016 – 31/12/2016					
Allocation of profit previous year			247,841	(247,841)	0
Distribution of dividends			(159,122)		(159,122)
Reserve for employees stock option plan			834		834
Actuarial effect IAS 19			(21)		(21)
Net result				162,444	162,444
Total net result			*(21)*	*162,444*	*162,423*
Balance as at 31/12/2016	**54,630**	**10,926**	**264,036**	**162,444**	**492,036**
Period 01/01/2017 – 31/12/2017					
Allocation of profit previous year			162,444	(162,444)	0
Distribution of dividends			(93,601)		(93,601)
Reserve for employees stock option plan			1,811		1,811
Actuarial effect IAS 19			69		69
Net result				207,062	207,062
Total net result			*69*	*207,062*	*207,131*
Balance as at 31/12/2017	**54,630**	**10,926**	**334,759**	**207,062**	**607,377**

SARAS SPA – STATEMENT OF CASH FLOW FOR 2017

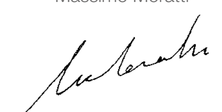
Thousands of euros	(1)	(2)	01/01/2017 31/12/2017	01/01/2016 31/12/2016
A – Initial cash and cash equivalents	**5.1.1**	**A**	**271,901**	**768,747**
B – Cash flow from (for) activities in the year				
Net result	5.5		207,062	162,444
Unrealised exchange rate differences on bank current accounts			7,726	(853)
Depreciation and write-downs of fixed assets	6.2.4	H, J	2,285	1,712
Net (income) charges from equity investments	6.3	L	40	18,298
of which with related parties:			*18,298*	*18,298*
Net change in risk provisions	5.4.2	P, Z	(515)	1,199
Net change in provision for employee benefits	5.4.3	Q	(262)	(216)
Net change in deferred tax liabilities and deferred tax assets	5.2.4	X	12,479	63,446
Net interest		U, Y	5,071	17,157
Income tax set aside	6.5	X	66,166	25,678
Change negotiable FV financial assets and financial liabilities			2,393	43,878
Other non-monetary components	5.5		1,880	813
Profit (loss) of operating activities before monetary and non-monetary changes in working capital			**304,325**	**333,556**
(Increase) Decrease in trade receivables	5.1.3	C	25,983	(143,685)
of which with related parties:			*(9,393)*	*(9,393)*
(Increase) Decrease in inventories	5.1.4	D	(244,092)	(41,872)
(Increase) Decrease in trade and other payables	5.3.2	R	106,066	(133,279)
of which with related parties:			*(113,030)*	*(113,030)*
Change other current assets	5.1.5 – 5.1.6	E, F	(515)	107,081
of which with related parties:			*(31,523)*	*(31,523)*
Change other current liabilities	5.3.3 – 5.3.4	X, R	(97,413)	125,324
Interest received		U, Y	118	1,388
of which with related parties:			*806*	*806*
Interest paid		U, Y	(5,189)	(18,545)
of which with related parties:			*(395)*	*(395)*
Income tax paid		E, X	(39,420)	(34,462)
Change other non-current liabilities	5.4.4	R	(3,098)	(3,099)
Total (B)			**46,765**	**192,407**
C – Cash flow from (for) investment activities				
(Net investments) in tangible and intangible fixed assets	5.2.1 – 5.2.2	H, I	(11,201)	(2,870)
of which capitalised interest expense paid				
(Increase)/decrease in other financial assets	5.1.2 – 5.2.5	B, M	102,714	68,091
Total (C)			**91,513**	**65,221**
D – Cash flow from (for) financing activities				
Increase/(decrease) m/l-term financial payables	5.4.1	R	73,702	(402,411)
Increase/(decrease) short-term financial payables	5.3.1	R	(4,318)	(193,794)
of which with related parties:			*(113,030)*	*(113,030)*
Distribution of dividends and treasury share purchases			(93,601)	(159,122)
Total (D)			**(24,217)**	**(755,327)**
E – Cash flow for the period (B+C+D)			**114,061**	**(497,699)**
Unrealised exchange rate differences on bank current accounts			(7,726)	853
F – Final cash and cash equivalents			**378,236**	**271,901**

(1) Please refer to the Notes to the consolidated financial statements, section 5 "Notes on the Statement of Financial Position"

(2) Please refer to the Notes, section 3.3 "Summary of accounting standards and policies"

For the Board of Directors - The Chief Executive Officer

Massimo Moratti



NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF SARAS SPA AT 31 DECEMBER 2017

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF SARAS SPA AT 31 DECEMBER 2017

1. Introduction

Saras S.p.A, (the "Company") is a company limited by shares listed on the Milan stock exchange. Its registered office is in Sarroch (CA), Italy, S.S. 195 "Sulcitana" Km. 19. It is jointly controlled by Gian Marco Moratti SapA and Massimo Moratti SapA, which own 25.01% each and 50.02% jointly of its share capital (excluding treasury shares), under the shareholders' agreement signed by the two companies on 1 October 2013. The company's term is set until 31 December 2056, as stated in its articles of association.

Saras SpA operates in the Italian and international oil markets through the sale of refined products, in addition, it holds, directly and indirectly, subsidiaries engaged in turn:

- in the refining of crude oil in the plant owned by its Sarlux Srl subsidiary;
- the sale of oil products in the retail and wholesale markets in Spain (Saras Energia S.A);
- in the generation and sale of electricity via an integrated gasification combined cycle plant (Sarlux Srl) and a wind farm (Sardeolica Srl);
- in research activities for environmental sectors (Sartec Srl) and reinsurance (Reasar SA).

These separate financial statements at 31 December 2017 are presented in euro, since this is the currency of the economy in which the Company operates. They consist of a statement of financial position, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and these notes. All amounts shown in these notes are expressed in thousands of euro, unless otherwise stated.

2. Basis of preparation of the separate financial statements

The separate financial statements of the Group for the year ending 31 December 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS or "international accounting standards") issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to article 6 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19 July 2002, and in accordance with the measures adopted in implementation of Art. 9 of Legislative Decree No. 38 of 28 February 2005.

The term IFRS is used to mean all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC), endorsed by the European Commission as of the date the draft financial statements of the Saras S.p.A company were approved by its Board of Directors and set out in the relevant EU regulations published on that date.

The financial statements have been prepared using the following criteria, in line with IAS 1, deemed suitable to provide a more complete picture of the financial position, operating results and cash flows:

- statement of financial position: assets and liabilities are divided into current and non-current items, according to liquidity;
- income statement and statement of comprehensive income: income statement items are presented according to their nature;
- cash flow statement: presented using the indirect method, which distinguishes between cash flows from operations, investing and financing activities;
- statement of changes in equity.

The accounting standards shown below have been applied consistently to all the periods reported.

These financial statements were prepared in accordance with the going concern principle, as the Directors determined that there are no financial or operating indicators, among others, signalling criticalities in the Group's ability to meet its obligations in the foreseeable future. The risks and uncertainties relative to the business are described in the section dedicated to the Report on Operations. A description of the Company's financial risk management, including liquidity and capital risks, is provided in the section on additional information on financial instruments and risk management policy of these notes.

3. Accounting standards applied

3.1 Standards and interpretations endorsed and in force as of 1 January 2017

The amendments to IAS 7 Statement of Cash Flows are part of the IASB Disclosure Initiative and require an entity to supply additional information that allows the users of financial statements to evaluate the variations in liabilities linked to financing activities, including both variations linked to cash flows and non-monetary variations. At the time of the initial application of this amendment the entity need not present comparative information relating to previous financial periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The application of these amendments had no significant impact on the Company.

3.2 Standards issued but not yet in force

Below, standards and interpretations are illustrated which, at the Company's reporting date, had been issued but were not yet in force. The Company intends to adopt these standards once they come into force.

IFRS 9 – Financial Instruments
In July 2015, the IASB issued the final version of IFRS 9 Financial Instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all previous versions of IFRS 9. IFRS 9 is divided in three parts:

1. classification and measurement of the financial instruments on the basis of the business model of the entity and the characteristics of cash flows generated by such financial instruments;

2. impairment of financial instruments on the basis of a new and unique impairment model based on the recognition of an entity's expected losses. This model is not applied to equity instruments and calls for the simplification of trade receivables, from an operational point of view;

3. hedge accounting based on a more flexible approach than that indicated in IAS 39.

IFRS 9, endorsed by the European Union, is effective for annual periods beginning on or after 1 January 2018, with early application permitted. With the exception of hedge accounting, the retrospective application of the standard is required, but it is not necessary to provide comparative information. As regards hedge accounting, the standard is generally applied prospectively, with certain limited exceptions.

The Group will adopt the new standard once it comes into force.

In 2017, the impact of the transition was analysed with respect to the three macro-areas of revision of the current provisions of IAS 39.

With respect to the new classification and measurement criteria of financial instruments introduced by IFRS 9, a detailed analysis was conducted, focusing on the instruments currently in portfolio and the related accounting balances in the 2016 financial statements. For each identified category, the current accounting treatment under IAS 39 was analysed and subsequently compared with the future classification under IFRS 9, considering the specific contractual features of the instruments and the classification options allowed by the standard. The analysis revealed the following preliminary impacts:

Non-controlling interests
They are recognised at cost under IAS 39, but are to be recognised at fair value under IFRS 9, with a balancing entry in the income statement or the statement of comprehensive income. They are of a modest nature (Sarda Factoring and Consorzio La Spezia Utlities). Their estimated current value is not expected to have any significant quantitative effect on the financial statements.

Factored trade receivables
They are currently measured at amortised cost, which substantially coincides with their nominal amount given the lack of transaction costs. Under IFRS 9, these components qualify as debt instruments and are to be measured at fair value. Indeed, as they are not held to maturity, they cannot be assigned to a hold-to-collect-type model required by the IFRS 9 in order to measure financial assets at amortised cost. The new classification under IFRS 9 has no impact on the carrying amount of these receivables since, in general, the fair value of a short-term trade receivable, provided that there are no significant transaction costs, can be reasonably deemed to approximate its nominal amount. The different classification will impact the disclosure to be provided in the notes, in accordance with IFRS 7.

Financial liabilities to be renegotiated
The carrying amount of the liabilities to be renegotiated outstanding at 31 December 2017 will be recalculated under the new calculation approach introduced by IFRS 9 and, at the opening balances at 1 January 2018, the difference compared to the carrying amount calculated under IAS 39 will be offset against equity. The impact on the opening equity at 1 January 2018 is not expected to be significant since most of the potential effects generated by past renegotiations were reabsorbed in the 2017 income statement following the early settlement of most liabilities as per the transaction carried out in last few

days of 2017, as described in note 5.4.1 – Long-term financial liabilities.

With respect to the other financial statements captions analysed (Other current receivables at amortised cost, Guarantee deposits, Intercompany loans in the separate financial statements, derivatives, financial liabilities), to date, no potential impacts are expected from the introduction of IFRS 9, such to require a detailed analysis.

With respect to impairment rules, the analysis showed the following:

- most receivables arising from the Company's operations are transferred without recourse (and are derecognised) and/or as part of other credit risk mitigation measures with respect to both wholesale sales (mainly through insurance coverage and, to a lesser extent, by means of bank sureties) and receivables from cargo trading activities (collection, including through letters of credit, bank sureties or parent company guarantees);
- most receivables arising from cargo trading activities (with a significant unit amount) are characterised by extremely limited terms of payment (i.e., a few days after the date of delivery of the goods);
- the allowance for impairment is currently calculated based on specific assessments of the recoverability of past due positions;
- the losses on receivables historically recognised by the Company.

Therefore, it was preliminarily deemed that the credit risk arising from the expected loss on performing receivables – a new element to be included when estimating the allowance for impairment under IFRS 9 – is not be considered significant.

With respect to hedge accounting rules, at present, the Company does not apply these rules to its derivatives portfolio. In line with this accounting policy, the application of the new rules under IFRS 9 as of 1 January 2018 will have no accounting effect on the opening balances or the financial presentation of derivatives starting from 2018. However, given the simplifications introduced by IFRS 9 and main operating circumstances which may be potentially managed using hedge accounting rules, in the future, the Group may decide to further investigate the future application of the hedge accounting rules to its derivatives portfolio.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and introduced a new five-step model that will apply to revenue from contracts with customers. IFRS 15 prescribes that an entity will recognise revenue that reflects the consideration to which the entity expects to be entitled in exchange for goods or services to customers.

The new standard will supersede all current IFRS requirements on revenue recognition. This standard is effective for annual periods beginning on or after 1 January 2018, with full retrospective or amended application. Early application was permitted.

The Company decided to apply the new standard starting from the obligatory effective date, using the full retrospective application method.

The standard establishes a new model of recognition of revenues, which will be applied to all contracts stipulated with clients with the exception of those that fall under the scope of other IAS/IFRS standards such as leasing contracts, insurance contracts and financial instruments. The fundamental steps for the accounting of revenues according to the new model are:

- the identification of the contract with the customer;
- the identification of the contract's performance obligations;
- the determination of the price;
- the allocation of the price to the contract's performance obligations;
- the revenue recognition criteria when the entity satisfies each performance obligation.

In 2017, the main findings of the analysis of the impact of applying the new standard are described below.

The Company earns its revenues from the sale of oil products according to the following types of transactions: Oil sales (Cargo, Transfer Stock), Wholesale and Retail sales.

The different types of transactions were analysed with respect to the five steps introduced by the standard:

- identifying the contract, the customer and the relevant contractual provisions;
- identifying the goods or services covered by the contractual obligation, including guarantees, options, ancillary services and multiple services;
- determining the transaction price, including variable, financial, non-monetary and amending components;
- allocating any variable or discount components to contractual obligations;
- identifying when the contractual obligation is met and the revenue can therefore be recognised in profit or loss, checking transfer of control and any acceptance, repurchase, deposit or other relevant clauses.

Furthermore, the clauses which provide for the invoicing of ancillary costs, including, in particular, transport costs on Cargo sales, were analysed.

The composition of similar types of transactions with respect to Oil sales is facilitated by the use of contracts based on a standard form which uniquely identifies the main features of the transaction (buyer, seller, product, delivery, quantity, quality, laydays, payment condition, price, laytime and demurrage, etc.).

Oil sale types and the peculiar features on which the analysis was mainly focused are as follows:

Cargo sales

These refer to the sale of oil products by vessel. The related revenues are recognised upon transfer of control over the asset, identified based on Incoterms. These contracts do not include any contractual obligations in addition to

the sale of the asset, or financial components or discount mechanisms. Any recharging of transport costs, managed on behalf of the buyer and covered by the recharging transaction, is considered, similarly to demurrage, if any, as an ancillary charge which does not configure an independent sale in which Saras acts as the agent. The price is calculated based on the qualitative characteristics of the product, which are checked by an independent inspector upon loading or unloading of the vessel, based on the commercial condition applied. Consequently, the accounting treatment applied to these transactions need not be amended.

Transfer stock

These refer to the sale of oil products through the delivery of the product to a third-party depositary, where it can be collected by the buyer. When the product is delivered to the depositary, the seller no longer retains ownership which is transferred to the buyer as per the tax records. Therefore, the seller can no longer use it. Saras recognises the revenue from the sale at this time. Similarly to Cargo sales, the quality of the product delivered is checked by an independent inspector when the product is delivered to the depositary. Consequently, the accounting treatment applied to these transactions need not be amended.

Amendments to IFRS 10 and to IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The amendments concern the conflict between IFRS 10 and IAS 28 with reference to the loss of control of a subsidiary that is sold or assigned to an associate or by a joint venture. The amendments clarify that the profit or loss resulting from the sale or assignment of activities that constitute a business as defined by IFRS 3, between an investor and an associate or joint venture, must be fully recognised. Any profit or loss resulting from the sale or assignment of assets that do not constitute a business is only recognised up to the limits of the stake held by third-party investors in the associate or joint venture. The IASB has indefinitely postponed the date of application of these amendments, but an entity opting for early application should apply them retrospectively.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

These amendments clarify how to account for deferred tax assets relating to debt instruments measured at fair value. This standard, which is expected to come into force on 1 January 2017, has not been endorsed by the European Union. These amendments are not applicable to the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

IASB has issued amendments to IFRS 2 Shared-based payment which deal with three main issues: the effects of a vesting condition on the measurement of a cash-settled share-based payment; the classification of a liability-settled share-based payment; accounting in the eventuality of an amendment in the terms and conditions of a share-based payment transaction modifies its classification from a cash-settled to an equity-settled transaction. At the time of adoption, entities must apply the amendments without restating previous financial periods, but the retrospective application is allowed if chosen for all three amendments and if other criteria are complied with. These amendments are effective for annual periods beginning on or after 01 January 2018, with early application permitted. The Group is evaluating the effect of these amendment on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 Leasing, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases – Incentives and SIC-27 Evaluating the substance of transactions in the legal form of a lease. IFRS 16 defines the standards for the recognition, measurement, presentation and disclosure of leases, requiring lessees to recognise all leases in the financial statements on the basis of a single model similar to that used for accounting for finance leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by lessees – leases relating to "low value" assets (for example personal computers) and short-term leases (for example, the lease term is 12 months or less). At inception of a lease, the lessee will recognise a liability for the lease payments (the lease liability) and an asset that represents the right of use of the leased item for the term of the contract (the right-of-use asset). Lessees will need to account separately for the interest expense on the lease liability and the depreciation of the right-of-use asset.

Lessees will also need to remeasure the lease liability on the occurring of specific events (for example: a change in the conditions of the lease contract, a change in future lease payments due to a variation in an index or rate used for determining those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment of the right-of-use asset.

IFRS 16 requires from lessees more detailed disclosure compared to that required from IAS 17.

The standard will come into force for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before the entity has adopted IFRS 15. A lessee can chose to apply the standard using a fully retrospective approach or a modified retrospective approach. The transitional measures included in the standard allow some facilitations.

The Company has begun analysing the impact of the introduction of the new standard: the preliminary analysis showed no significant impacts since the Company did not enter into major leases.

IFRS 17 Insurance Contracts

In May 2017, the IASB published IFRS 17 Insurance Contracts which covers insurance contracts' recognition and measurement, presentation and disclosure. Once into force, IFRS 17 will replace IFRS 4 Insurance Contracts, published in 2005. IFRS 17 applies to all types of insurance contracts (e.g., life and non-life, direct insurance and re-insurance), regardless of the nature of the entity that issues them, as well as some guarantees and financial instruments with discretionary participation features.

The standard will provide for some limited exceptions. The scope of IFRS 17 is to introduce an accounting model for insurance contracts that is more useful and consistent for insurers. Contrary to the provisions of IFRS 4 which largely maintain the previous accounting policies, IFRS 17 introduces an exhaustive model for all insurance contracts, covering all significant accounting issues. The core of IFRS 17 is the general model, integrated by:

- a specific adjustment for contracts with direct participation features (VFA/variable fee approach);

- a simplified approach (the premium allocation approach), mainly for short-term contracts.

IFRS 17 will be effective for annual periods beginning on or after 1 January 2021 and will require the presentation of corresponding balances. Early application is permitted if both IFRS 9 and IFRS 15 have also been applied. This standard does not apply to the Company.

Transfers of Investment Property — Amendments to IAS 40
The amendments clarify when an entity should transfer property, including that under construction or development, to, or from, investment property. According to the amendments, a change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. An entity should apply the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of the property held at such date and, where applicable, reclassify it to reflect the conditions in place at the such date. Retrospective application is also permitted under IAS 8 if that is possible without the use of hindsight. These amendments are effective for annual periods beginning on or after 1 January 2018. Early application is permitted, giving disclosure thereof. The Company does not expect any impact on its financial statements.

Annual Improvements 2014-2016 Cycle (issued in December 2016)
They include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters
The short-term exemptions envisaged in paragraphs E3-E7 of IFRS 1 have been deleted as they have served their purpose. These amendments have been in force since 1 January 2018. They are not applicable to the Company.

IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
The amendments clarify that:

- an entity that is a venture capital organisation, or a mutual fund, may elect to measure upon initial recognition the individual investment in associates and joint ventures at fair value through profit or loss;

- when an entity that does not qualify as an investment entity, has an investment in an associate or a joint venture that is an investment entity, the entity may, provided that the equity method is applied, elect to continue to apply the fair value measurement applied by said investment entity (either an associate or a joint venture) to its investments (associate or joint venture). This election is made separately for each associate or joint venture that is an investment entity at the latter of the following dates (in terms of occurrence): (a) the initial recognition of the investment in the associate or the joint venture that is an investment entity; (b) when the associate or joint venture becomes an investment entity; and (c) when the associate or joint venture that is an investment entity becomes the parent company for the first time.

The amendments should be applied retrospectively as of 1 January 2018; early application is permitted. An entity's decision to opt for the early application of these amendments must be disclosed. They are not applicable to the Company.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4
The amendments refer to the concerns arising from the application of the new standard on financial instruments (IFRS 9), before IFRS 17 Insurance Contracts, replacing IFRS 4, is applied. They introduce two options for entities issuing insurance contracts: a temporary exemption from IFRS 9 and the overlay approach. The temporary exemption applies for the first time to the years beginning on or after 1 January 2018. An entity can choose to apply the overlay approach only when it first applies IFRS 9. The application applies retrospectively to financial assets designated upon transition to IFRS 9. The entity shall redetermine the corresponding figures, reflecting the overlay approach if, and only if, it redetermines such figures when applying IFRS 9. They are not applicable to the Company.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that, the date of the transaction for the purpose of determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The entities may apply the adjustment on a full retrospective basis. Alternatively, they may apply the Interpretation prospectively to all assets, expenses and income in the scope of the Interpretation initially recognised on or after:

(i) the beginning of the reporting period in which the entity first applies the Interpretation;

or

(ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the Interpretation.

The Interpretation came into force for annual periods beginning on or after 1 January 2018. Early application is permitted, giving disclosure thereof. Furthermore, since its current accounting policy is in line with the Interpretation, the Company does not expect any impact on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation determines the accounting for income taxes when there is uncertainty over income tax treatments which have an effect on the application of IAS 12. It does not apply to taxes or levies outside the scope of IAS 12 nor does it explicitly refer to interest and penalties related to uncertain tax treatments.

This Interpretation addresses in particular:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances.

An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. based on which approach better predicts the resolution of the uncertainty. The Interpretation will come into force for annual periods beginning on or after 1 January 2019. Transitional facilitations are available. The Company will adopt the Interpretation as of the date of its entry into force.

3.3 Summary of accounting standards and policies

The financial statements have been prepared based on the cost principle, except in the specific cases described in the notes below, where fair value has been applied.

The main accounting policies used are described below.

A Cash and cash equivalents

Cash and cash equivalents mainly consist of cash on hand, demand deposits with banks, other short-term, highly liquid investments (convertible into cash within 90 days) and overdraft facilities; overdrafts in bank accounts are reported under current liabilities. Items listed under net cash and cash equivalents are measured at fair value, and changes are reported in the income statement.

B Financial assets held for trading

Financial assets held for trading are reported at fair value, with any gains reported in the income statement under “Financial income” and “Financial charges”. Financial assets held for trading consist entirely of derivative contracts, which are discussed in the relevant section below.

C Trade receivables

Trade receivables are measured at fair value on initial recognition. Subsequently, they are valued at amortised cost by applying the effective interest rate method. Where there is objective evidence indicating impairment (in terms of both solvency and the credit risk characteristics of individual debtors), the asset’s carrying amount is decreased to an amount equal to the discounted value of its future cash flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-down no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

Receivable assignments

Receivable assignments are accounted for in accordance with the method indicated by IAS 39 for the derecognition of financial assets. Consequently, all receivables assigned to the factoring company, when contractual provisions include clauses that do not involve maintaining significant exposure to the performance of cash flows arising from the receivables assigned, are derecognised.

D Inventories

Inventories are recognised at the lower of purchase or production cost and the net realisable value at the end of the financial year represented by the amount that the company expects to obtain from their disposal as part of its ordinary business activities. The cost of crude oil, materials and spare parts is determined by the FIFO method. The cost of oil product inventories is calculated using the weighted average cost of the last quarter.

E Current tax assets

Current tax assets are booked at initial recognition in the amount that is expected to be recovered from the tax authorities, taking into account their expected realisable value. Subsequently, they are recognised at amortised cost based on the effective interest rate method.

F Other assets

Other current assets are measured at fair value on initial recognition. Subsequently they are recognised at amortised cost by applying the effective interest rate method. Where there is objective evidence indicating impairment, the asset’s carrying amount is decreased to an amount equal to the discounted value of its future cash flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-down no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

G Derecognition of financial assets and liabilities

Financial assets that are transferred are derecognised from the statement of financial position when the right to receive the related cash flows is transferred, together with all risks and benefits associated with ownership, as specified in paragraphs 15-23 of IAS 39.

Financial liabilities are derecognised when they are settled and when the company has transferred all the risks and charges relating to them.

H Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, less accumulated depreciation and any impairment. The cost includes all expenses incurred directly in preparing the assets for use, as well as any disposal and removal charges incurred as a result of contractual obligations. Any interest expenses relating to the construction of tangible assets are capitalised until the asset is ready to be used.

Costs associated with requirements to restore or dismantle plants arising from statutory or contractual obligations are accounted for as an increase in the historical cost of the asset with an offsetting entry in the provisions for risks and future liabilities.

Maintenance and repair charges are expensed as incurred. Costs relating to the expansion, modernisation or improvement of facilities owned by Saras or used by third parties are only

capitalised up to the limits within which they fulfil the conditions for separate classification as an asset or part of an asset in accordance with the component approach. Similarly, the costs of replacing the identifiable components of complex assets are recognised as assets and depreciated over their useful life; the residual value of components thus replaced is charged to the income statement.

The carrying amount of property, plant and equipment is depreciated on a straight-line basis from the time the asset is available and ready for use, in relation to its estimated useful life.

The useful life estimated by the company for each of the various asset categories is as follows:

Buildings	18 years
Office furniture and machinery	4 – 8 years
Vehicles	4 years
Other goods	12 years
Leasehold improvements	The shorter of the duration of the lease and the asset's useful life

The useful life of property, plant and equipment and their residual value are revised annually at each reporting date, and adjusted accordingly.

Land is not depreciated.

If an asset to be depreciated consists of separately identifiable components and the useful life of one component differs significantly from that of the others, each component of the asset is depreciated separately in accordance with the component approach.

I Leased goods

Assets held under finance leases, under which all risks and benefits associated with ownership are substantially transferred to the company, are recognised as assets and recognised at their current value or, if lower, at the present value of the minimum lease payments due. The corresponding liability to the lessor is recognised on the statement of financial position under financial liabilities. Leased assets are depreciated on the same basis and at the same depreciation rates as those set out above for property, plant and equipment.

Leases under which the lessor substantially retains all the risks and benefits associated with ownership of the assets are treated as operating leases. The costs relating to operating leases are charged to the income statement on a straight-line basis over the term of the lease.

J Intangible fixed assets

Intangible assets are made up of elements that are non-monetary in nature, without physical substance and clearly identifiable (i.e. distinct, able to be separated, dismantled or traded, and deriving from other contractual or legal rights), controlled by the company and capable of generating future economic benefits. These elements are recognised at acquisition and/or production cost, which includes any directly attributable charges incurred in preparing the asset for use, net of accumulated amortisation and any impairment losses. Any interest expenses accrued during and in respect of the development of intangible assets are charged to the income statement. Amortisation commences from the time the asset is available for use and is charged on a straight-line basis over its estimated useful life.

Intangible assets are recorded, where required, with the approval of the board of statutory auditors.

[I] Patent rights, concessions, licences and software (intangible assets with an indefinite useful life)

Intangible assets with a finite useful life are amortised systematically over their useful life, taken to be the estimated period in which the assets will be used by the company; the recoverability of the carrying amount of the assets is checked using the same method applied to 'Property, plant and equipment'.

[II] Research and development expenses

The costs associated with the acquisition of new knowledge or discoveries, the development of alternative products or processes, new techniques or models, the design and construction of prototypes, or otherwise relating to other scientific research or technological development are treated as current costs and taken to profit or loss when incurred.

[III] Exploration for and evaluation of mineral resources

Expenditures incurred in the exploration and evaluation of mineral resources, specifically:

[A] Acquisition of exploration rights;

[B] Photographic, geological, geochemical and geophysical studies;

[C] Explorative drilling;

[D] Digging;

[E] Sampling;

[F] Activities related to the evaluation of technical and commercial viability of extracting a mineral resource.

Are recorded under tangible or intangible assets according to their nature, as required by IFRS 6. These costs are periodically reviewed in order to determine whether any impairment indicators exist that might indicate that their recoverable value is lower than their carrying value.

K Impairment of assets

At each reporting date, property, plant and equipment and intangible assets with a definite useful life and equity investments are tested for impairment, originating from both internal and external sources. Where such indicators exist, the recoverable amount of these assets is estimated and any impairment loss duly charged to the income statement. The recoverable amount of an asset is the greater of its fair value less selling costs and its value in use (the present value of the future cash flows that the asset is expected to generate). In determining value in use, future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money in relation to the period of the investment and the risks specific to the asset. The recoverable value of an asset that does not generate largely independent cash flows is determined in relation to the cash generating unit to which the asset belongs. An impairment is recognised in the income statement whenever the carrying value of an asset, or of the cash generating unit to which it is allocated, is higher than its recoverable value. When the reasons for impairment no longer exist, the impairment loss

is reversed to profit or loss up to the carrying amount that the asset would have had, had it not been impaired and if it had been depreciated.

L Equity investments

Investments in subsidiaries, affiliates and joint ventures are recorded at purchase cost, and reduced for any losses according to the provisions of IAS 36.

The investments included under 'Other investments' are measured at fair value, with the impact of any changes in fair value recognised through profit or loss. Where fair value cannot be reliably determined or is insignificant, they are measured at cost less any impairment losses, in compliance with IAS 39. These costs are periodically reviewed in order to determine whether any impairment indicators exist that might indicate that their recoverable value is lower than their carrying value. When the reasons that led to a write-down in previous periods no longer exist, the write-down of the investment is reversed through the income statement.

M Other financial assets

Receivables and financial assets held to maturity are measured at fair value on initial recognition. Subsequently they are valued at amortised cost by applying the effective interest rate method. Where there is objective evidence indicating impairment, the asset's carrying amount is decreased to an amount equal to the discounted value of its future cash flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-down no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

The treatment of financial assets linked to derivative instruments is shown under point Y (Derivatives).

N Treasury shares

Treasury shares are recognised at cost and deducted from equity.

O Equity

[I] Share capital

Share capital consists of subscribed and paid-up capital. Costs strictly related to the issue of new shares are deducted from equity reserves, after any deferred tax effect.

[II] Reserves

Reserves comprise sums set aside for a specific purpose; they include the unallocated portion of net profit from previous years.

[III] Share-based payments by the Parent Company to Group employees and management

The company grants additional benefits to employees and management via bonus share allocations. In accordance with IFRS 2 (Share-based Payments), the cost of stock plans is recognised in profit or loss over the vesting period on a straight-line basis, with a balancing entry in equity. Changes in fair value after the grant date have no effect on the initial valuation.

P Funds for risks and charges

Provisions for risks and future liabilities are recognised only where a present obligation (legal or constructive) exists in relation to past events that is expected to result in an outflow of financial resources, the amount of which can be reasonably assessed. This amount represents the best discounted estimate of the sum that must be paid to discharge the obligation. The rate used to determine the present value of the liability reflects current market values and includes the additional effects of the specific risk associated with each liability.

Those risks in respect of which a future liability is only "possible" are disclosed in the section on commitments and risks; no provision is made for these risks.

Q Provisions for employee benefits

The company provides various types of pension plans, in keeping with the conditions and practices that are commonly applied locally in those countries in which it carries out its activities.

From 1 January 2007, the regulations governing post-employment benefits were amended to include the option for employees to decide where these are held. Specifically, new post-employment benefits may be allocated to pension funds or held at the company (if it has fewer than 50 employees, or allocated to INPS if it has more than 50 employees). The introduction of these regulations has resulted in the following accounting changes:

- Provisions made up to 31 December 2006
  Post-employment benefits pursuant to article 2120 of the Italian Civil Code are treated in the same way as "defined benefit plans"; these plans are based on the working life of the employees and on the remuneration they receive over a pre-determined period of service. The liability relating to post-employment benefits is entered on the statement of financial position based on their actuarial value, since this can be quantified as a staff benefit due on the basis of a defined benefit plan. The recognition of defined benefit plans requires the estimate of the benefits accrued by the employees in exchange for the service provided using actuarial techniques. These services are then discounted in order to determine the present value of the Company's obligations. The present value of the company's obligations is determined by an external expert using the projected unit credit method. This method, which comes under the more general area of "accrued benefit methods", considers each period of service at the Company as an additional unit of entitlement: actuarial liabilities must therefore be quantified solely on the basis of years worked at the valuation date; thus, an estimate of the total liability is normally extrapolated from the number of years of service at the valuation date to account for the total number of years worked at the time the benefit is expected to be paid.

  The cost accrued for the year in respect of defined benefit plans is recorded in the income statement under personnel expenses and is equivalent to the sum of the average present value of entitlements accrued by current employees and the annual interest accrued on the present value of the Company's obligations at the beginning of the year, calculated using the discount rate for future disbursements that is used to estimate liabilities at the end of the previous year. The annual discount rate adopted for these calculations is the end-of-year market rate for zero coupon bonds with the same maturity as the average remaining duration of the liabilities.

Following application of IAS 19 (revised), actuarial gains and losses relating to the change in parameters, previously reported in the income statement (personnel costs), are now recognised in the statement of comprehensive income.

- Allocations accrued since 1 January 2007
  The allocations in question are accounted for using the method adopted for defined contribution pension plans (which are not subject to actuarial valuations) as the amount relating to employees has been transferred in full outside the company.
  The corresponding liability is determined according to article 2120 of the Italian Civil Code.

R Financial liabilities, trade and other payables and other liabilities

These are measured at fair value on initial recognition. Subsequently they are valued at amortised cost by applying the effective interest rate method. Where there is a change in the estimated future cash flows and these can be reliably estimated, the value of the payables is recalculated to reflect this change on the basis of the present value of the new estimated future cash flows and the internal rate of return originally calculated.

Sale transactions with a repurchase obligation represent a form of financing as the risks attached to ownership (mainly the risk relating to changes in fair value) remain with the company. In this case, the asset is not derecognised, the payable for the repurchase is classified as financial and the difference is recorded in the income statement as financial income or charges.

Financial liabilities also include derivative contracts, which are discussed in the appropriate section below. Derivative contracts are measured at fair value with a balancing entry in profit or loss at each reporting date.

S Revenue recognition

Sales revenues are recognised when the risks and benefits associated with ownership have effectively been transferred or when a service has been rendered.

The recognition of revenues from services is based on the stage of completion reached.

Revenues are recorded net of returns, discounts, allowances and premiums, and of directly related taxes.

T Recognition of costs

Costs are recognised when they relate to goods and services that are sold or used during the year or by systematic allocation, or when their future usefulness cannot be determined.

U Interest income and expenses

Interest income and expenses are booked on an accruals basis.

V Conversion of items expressed in a currency other than the euro

Foreign currency transactions are translated into euros at the exchange rates ruling on the transaction date. Exchange rate gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary asset and liability items denominated in a foreign currency are recorded in the income statement.

W Dividends

[A] Dividends received

Dividends received from subsidiaries, joint ventures, affiliates and other holdings are recorded in the income statement when the right of shareholders to receive the payment has been established.

[B] Dividends paid out

The payment of dividends to company shareholders is recorded as a liability on the statement of financial position of the period in which the distribution was approved by the company's shareholders.

X Taxes

Current taxes are calculated based on the taxable income for the period, applying the prevailing tax rates at the reporting date.

Deferred taxes are calculated on all temporary differences arising between the tax base of an asset or liability and its carrying amount, with the exception both of those relating to investments in subsidiaries, and when the timing of the reversal of such differences is controlled by the company and it is probable that the differences will not be reversed within a reasonably foreseeable timescale.

In respect of deferred tax assets (including those relating to tax losses from previous periods) that cannot be offset against deferred tax liabilities in full, the residual portion is recognised to the extent that it is probable that taxable income will be generated in future against which they can be recovered.

Deferred taxes are calculated using the tax rates that are expected to apply in the years in which temporary differences are realised or reversed.

Current and deferred taxes are recognised in the income statement, with the exception of those related to items directly deducted from or added to equity, in which case the tax effect is taken directly to equity. Current and deferred taxes are set off when income taxes are applied by the same tax authority, when there is a legal right of set-off and the intention to settle on a net basis.

Changes in tax rates due to regulatory amendments are booked in the year in which the changes are substantially enacted; the effect is recorded in the income statement or under equity, in relation to the transaction that generated the underlying deferred tax.

Other taxes not related to income, such as property taxes, are included under 'Cost of services and sundry costs'.

The Parent Company allows its Italian subsidiaries to participate in the tax consolidation scheme for the purposes of calculating corporate income tax (IRES), pursuant to articles 117-128 of the consolidated law on income tax ("Consolidated National Tax"). As a result, a single tax base is created for the Parent Company and the Italian subsidiaries, essentially through the algebraic sum of the tax profit or loss of each participant. Participation in a particular scheme is confirmed by a communication to the tax authority made by the Parent Company indicating which subsidiaries have decided to take up this option. The option has a fixed duration of three years (except in the event of interruptions

provided for by law) and the matter is governed between the two parties by a consolidation agreement. With specific reference to the transfer of tax losses, the agreements in force provide for remuneration commensurate with the ordinary IRES tax rate, equal to the portion of the loss of each subsidiary that was effectively offset by taxable income generated by other consolidated companies. Any excess losses remain allocated to the Parent Company and remuneration for these losses is deferred until the year that they are actually used under the national tax consolidation scheme.

Y Derivative instruments

All derivatives are financial assets and liabilities that are recognised at fair value.

They are classified as hedging instruments when the relationship between the derivative and the item being hedged is formally documented and the effectiveness of the hedge, verified periodically, is high. When derivatives hedge the risk of changes in the fair value of the underlying items (fair value hedges, e.g. hedging the variability of the fair value of fixed-rate assets/liabilities), they are recorded at fair value in the income statement; with the effects of the changes taken to profit or loss; at the same time, the hedged items are adjusted to reflect the changes in fair value associated with the risk hedged. When derivatives hedge the risk of changes in cash flows from the underlying items (cash flow hedges, e.g. hedging the variability of cash flows generated by assets/liabilities due to exchange rate fluctuations), the changes in the fair value of the derivatives are initially recognised under equity and subsequently taken to the income statement in the same period in which the economic effects of the hedged items are recorded in the income statement.

Derivatives (including those relating to commodities) that do not meet the requirements for hedge accounting set out in IAS 39 are booked at fair value in the income statement, with the change in the fair value of the instrument recorded under the heading 'Financial income' or 'Financial charges'.

To determine the fair value of financial instruments listed on active markets, the bid price of the security on the relevant reporting date is used. In the absence of an active market, fair value is determined by using measurement models based largely on objective financial variables, and by considering, wherever possible, the prices observed in recent transactions and the prices for comparable financial instruments.

Please note that the derivative financial instruments being considered relate to hedging transactions for which "hedge accounting" has not been adopted.

Z Segment information

An operating segment is a part of an entity:

- **a)** that undertakes commercial activities that generate revenues and costs (including revenues and costs relating to transactions with other parts of the same entity);
- **b)** whose operating results are reviewed periodically at the highest operational decision-making level of the entity in order to adopt decisions on the resources to be allocated to the segment and the assessment of the results;
- **c)** for which separate accounting information is available.

A geographical segment is defined as a group of assets and transactions used for specific services in a particular geographical area.

3.4 Use of estimates

The preparation of the financial statements requires the directors to apply accounting standards and methodologies that, in certain situations, are based on difficult and subjective assessments and estimates founded on past experience and assumptions that, from time to time, are considered reasonable and realistic under the circumstances. The use of these estimates and assumptions affects the amounts reported in the financial statements, i.e. the statement of financial position, income statement, statement of comprehensive income and cash flow statement, as well as the accompanying disclosures. The actual amounts of accounting entries for which estimates and assumptions have been used may differ from those shown in the financial statements, due to the uncertainty surrounding said assumptions and the conditions upon which the estimates are based.

3.5 Most significant accounting policies requiring a greater degree of subjectivity

A brief description is provided below of the most significant accounting policies requiring greater subjectivity by the directors in the preparation of their estimates and in respect of which a change in the conditions underlying the assumptions used could have a significant effect on the restated aggregate financial information.

[I] Depreciation of property, plant and equipment: depreciation of property, plant and equipment represents a sizeable cost. The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the assets concerned. The useful life of the assets is determined by the directors at the time they are purchased; it is based on past experience for similar assets, market conditions and expectations as to future events that could affect their useful life, such as changes in technology. Their actual useful life could therefore differ from the estimate. The company periodically assesses technological changes and industry developments, dismantling and disposal costs and recoverable amount in order to adjust the asset's remaining useful life. This periodic revision process could lead to a change in the depreciation period considered and, therefore, in the depreciation charged in future years.

[II] Recoverable amount of property, plant and equipment: in the presence of impairment indicators, the estimated recoverable value is derived from a complex valuation process that largely depends on external sector variables or changes in the regulatory framework. The corresponding environment is monitored continuously and sector analyses are obtained regularly. However, it may be that the effective change in the key variables is not in line with expectations.

[III] Deferred taxes: deferred tax assets are recognised on the basis of expected future taxable earnings. The measurement of expected income for deferred tax recognition purposes depends on factors that may vary over time and may

have a significant effect on the measurement of deferred tax assets.

[IV] Provisions for risks: in certain circumstances, determining whether there is a current obligation (either legal or constructive) is not always straightforward. The directors consider such circumstances on a case-by-case basis, and at the same time estimate the amount of financial resources needed to discharge the obligation. Where the directors feel that a liability is only possible, the associated risks are disclosed in the note concerning commitments and risks, and no accrual is made.

4. Information by business segment and geographical area

4.1 Introduction

The company operates in the Italian and international oil markets as a seller of products derived from the refining process. It is therefore deemed that the company operates in just one segment.

4.2 Breakdown by geographical area

The breakdown by geographical area takes into account the size of the reference market and the countries in which the registered offices of counterparties are located.

Net revenues from ordinary operations by geographical area:

Revenues from ordinary operations	31/12/2017	31/12/2016	Change
Italy	2,456,129	1,871,426	584,703
Spain	249,741	441,550	(191,809)
Other EEC countries	1,648,283	968,502	679,781
Non-EEC	3,239,039	2,586,610	652,429
USA	185,663	41,634	144,029
Total	**7,778,855**	**5,909,723**	**1,869,132**

The following table shows a breakdown of trade receivables by geographical area:

Trade receivables	31/12/2017	31/12/2016	Change
Italy	188,682	174,146	14,536
Spain	7,614	23,220	(15,606)
Other EEC countries	21,308	25,692	(4,384)
Non-EEC	125,210	164,289	(39,079)
USA	18,550	0	18,550
Prov. for the write-down of contract work in progress	(5,117)	(5,117)	0
Total	**356,247**	**382,230**	**(25,983)**

The most significant changes to the statement of financial position and statement of comprehensive income compared with the previous year are illustrated below.

5. Notes to the statement of financial position

5.1 Current assets

5.1.1 Cash and cash equivalents

The following table shows a breakdown of cash and cash equivalents:

Cash and cash equivalents	31/12/2017	31/12/2016	Change
Bank and postal deposits	378,201	271,856	106,345
Cash	35	45	(10)
Total	**378,236**	**271,901**	**106,335**

5.1.2 Other financial assets

The table below shows the breakdown of other financial assets:

Current financial assets	31/12/2017	31/12/2016	Change
Current group loans	22,256	46,781	(24,525)
Current financial derivatives	51,062	27,905	23,157
Deposits to secure derivatives	21,371	74,321	(52,950)
Other assets	600	0	600
Total	**95,289**	**149,007**	**(53,718)**

This item includes the positive fair values of derivatives in place at the reporting date, the guarantee deposits paid to the clearing house and the "Current Group loans". The latter carry interest charged at market rates and are due within one year.

For further details on open positions in financial derivatives, see paragraph 5.3.1.

5.1.3 Trade receivables

Trade receivables amount to EUR 356,247 thousand, down by EUR 25,983 thousand as a result of the price trends of oil products The item is shown net of the allowance for impairment of EUR 5,117 thousand (unchanged compared to the previous year-end balance).

It also comprises the receivables from group companies, mainly the subsidiaries Saras Energia SAU (EUR 6,262 thousand) and Saras Trading (EUR 28,499 thousand) for the supply of oil products, and the subsidiary Sarlux Srl (EUR 49,583 thousand) for the supply of raw materials and services.

5.1.4 Inventories

The following table shows a breakdown of inventories and the changes that occurred during 2017:

Inventories	31/12/2017	31/12/2016	Change
Raw materials, supplies and consumables	325,593	164,998	160,595
Unfinished products and semi-finished products	61,560	59,071	2,489
Finished products and goods	339,474	258,466	81,008
Total	**726,627**	**482,535**	**244,092**

The increase in oil inventories (crude, semi-finished and finished products) is largely due to the rise in the quantities in stock at year end and to price trends. The comparison with the recoverable amount did not result in significant write-downs.

No inventories are used as collateral for liabilities.

The item 'Finished products and goods held for resale' includes around 439 thousand tons of oil products (valued at around EUR 169 million) held for group companies and certain third parties in accordance with the obligations of Legislative Decree 22 of 31 January 2001 (in the previous year, these stocks amounted to 511 thousand tons valued at around EUR 220 million).

5.1.5 Current tax assets

Current tax assets break down as follows:

Current tax assets	31/12/2017	31/12/2016	Change
IRES credits	0	7,372	(7,372)
IRAP credits	1,041	139	902
Other amounts due from the tax authorities	2,064	4,730	(2,666)
Total	**3,105**	**12,241**	**(9,136)**

The reduction in receivables for IRES is due to the use of the past surpluses in order to pay the balance for the previous year.

The decrease in other amounts due from the tax authorities is due to the collection of taxes claimed for reimbursement in prior years.

5.1.6 Other assets

The balance breaks down as follows:

Other assets	31/12/2017	31/12/2016	Change
Accrued income	65	56	9
Prepaid expenses	7,988	7,750	238
Receivables from subsidiaries for taxes transferred	13,369	4,048	9,321
Other short-term loans	6,172	6,089	83
Total	**27,594**	**17,943**	**9,651**

The item includes the receivables from subsidiaries for taxes, which concern credit positions, transferred in virtue of the already cited tax consolidation agreements, as well as deferred charges, and various agreements.

5.2 Non-current assets

5.2.1 Property, plant and equipment

The following table shows a breakdown of property, plant and equipment:

Historical Cost	31/12/2015	Increases	Decreases	Write-downs	Other changes	31/12/2016
Land and buildings	14,559	633	0	0	0	15,192
Industrial and commercial equipment	85	0	0	0	0	85
Other assets	22,950	0	0	0	309	23,259
Tangible fixed assets under construction	1,386	1,110	0	0	(309)	2,187
Total	**38,980**	**1,743**	**0**	**0**	**0**	**40,723**

Depreciation Fund	31/12/2015	Provisions	Use	Write-downs	Other changes	31/12/2016
Land and buildings fund	13,667	139	0	0	0	13,806
Industrial and commercial equipment	84	1	0	0	0	85
Other assets	21,313	1,175	0	0	0	22,488
Total	**35,064**	**1,315**	**0**	**0**	**0**	**36,379**

Net Value	31/12/2015	Increases	Decreases	Provisions	Write-downs	Other changes	31/12/2016
Land and buildings	892	633	0	(139)	0	0	1,386
Industrial and commercial equipment	1	0	0	(1)	0	0	0
Other assets	1,637	0	0	(1,175)	0	309	771
Tangible fixed assets under construction	1,386	1,110	0	0	0	(309)	2,187
Total	**3,916**	**1,743**	**0**	**(1,315)**	**0**	**0**	**4,344**

Historical Cost	31/12/2016	Increases	Decreases	Write-downs	Other changes	31/12/2017
Land and buildings	15,192	0	0	0	0	15,192
Industrial and commercial equipment	85	0	0	0	(1)	84
Other assets	23,259	10,393	(17,971)	0	0	15,681
Tangible fixed assets under construction	2,187	0	0	0	(1,465)	722
Total	**40,723**	**10,393**	**(17,971)**	**0**	**(1,466)**	**31,679**

Depreciation Fund	31/12/2016	Provisions	Use	Write-downs	Other changes	31/12/2017
Land and buildings fund	13,806	138	0	0	0	13,944
Industrial and commercial equipment	85	0	0	0	(1)	84
Other assets	22,488	736	(17,971)	0	0	5,253
Total	**36,379**	**874**	**(17,971)**	**0**	**(1)**	**19,281**

Net Value	31/12/2016	Increases	Decreases	Provisions	Write-downs	Other changes	31/12/2017
Land and buildings	1,386	0	0	(138)	0	0	1,248
Industrial and commercial equipment	0	0	0	0	0	0	0
Other assets	771	10,393	0	(736)	0	0	10,428
Tangible fixed assets under construction	2,187	0	(1,466)	0	0	0	722
Total	**4,344**	**10,393**	**(1,466)**	**(874)**	**0**	**0**	**12,398**

“Land and buildings” includes office buildings and improvements to the Milan offices.

“Other assets” mainly include furniture and electronic equipment.

“Assets under construction and payments on account” reflect include the costs incurred for investments not yet brought into operation at 31 December 2017.

The most significant annual depreciation rates used are shown below:

Industrial buildings (land and buildings)	5.50%
Supplies (equipment)	25%
Electronic office equipment (other assets)	20%
Office furniture and machinery (other assets)	12%
Vehicles (other assets)	25%

There are no property, plant and equipment held for sale.

5.2.2 Intangible fixed assets

The following table shows the changes in intangible assets:

Historical Cost	31/12/2015	Increases	Decreases	Write-downs	Other changes	31/12/2016
Industrial patent and original work rights	20,992	878	0	0	0	21,870
Intangible assets under construction	1,567	353	(102)	0	0	1,818
Total	**22,559**	**1,231**	**(102)**	**0**	**0**	**23,688**

Depreciation Fund	31/12/2015	Provisions	Use	Write-downs	Other changes	31/12/2016
Industrial patent and original work rights	20,887	399	0	0	0	21,286
Total	**20,887**	**399**	**0**	**0**	**0**	**21,286**

Net Value	31/12/2015	Increases	Decreases	Provisions	Write-downs	Other changes	31/12/2016
Industrial patent and original work rights	105	878	0	399	0	0	584
Intangible assets under construction	1,567	353	(102)	0	0	0	1,818
Total	**1,672**	**1,231**	**(102)**	**399**	**0**	**0**	**2,402**

Historical Cost	31/12/2016	Increases	Decreases	Write-downs	Other changes	31/12/2017
Industrial patent and original work rights	21,871	3,356	0	0	0	25,227
Intangible assets under construction	1,817	0	(613)	0	0	1,204
Total	**23,688**	**3,356**	**(613)**	**0**	**0**	**26,431**

Depreciation Fund	31/12/2016	Provisions	Use	Write-downs	Other changes	31/12/2017
Industrial patent and original work rights	21,286	1,411	0	0	0	22,697
Total	**21,286**	**1,411**	**0**	**0**	**0**	**22,697**

Net Value	31/12/2016	Increases	Decreases	Provisions	Write-downs	Other changes	31/12/2017
Industrial patent and original work rights	585	3,356	0	(1,411)	0	0	2,530
Intangible assets under construction	1,817	0	(613)	0	0	0	1,204
Total	**2,402**	**3,356**	**(613)**	**(1,411)**	**0**	**0**	**3,734**

Amortisation of intangible assets totalled EUR 1,411 thousand, and was calculated using the annual rates shown below.

Industrial patent rights and intellectual property rights	20%
Concessions, licences, trademarks and similar rights	5% – 33%
Other intangible assets	6% – 33%

The main items are set out in detail below.

Industrial patent and original work rights
The balance of this item mainly relates to the costs incurred to acquire software licences.

Fixed assets under construction and payments on account
The item includes investments underway to purchase software licences.

No intangible assets with a finite useful life are held for sale.

5.2.3 Equity investments

5.2.3.1 Equity investments valued at cost

The table below shows the list of equity investments held at 31 December 2017, with the main figures relating to each subsidiary on that date.

List of fixed financial assets

Name	Registered office	Currency	Share Capital	Amount owned	Holdings	Assets net	Carrying value in Saras SpA
Deposito di Arcola Srl	Arcola (SP)	EUR	1,000,000	100%	Subsidiary	1,446,353	0
Sardeolica Srl	Uta (CA)	EUR	56,696	100%	Subsidiary	94,655,553	33,613,000
Sarint SA	Luxembourg	EUR	50,705,314	99.9% (*)	Subsidiary	12,019,942	6,918,584
Sartec Srl	Assemini (CA)	EUR	3,600,000	100%	Subsidiary	15,064,353	17,382,989
Saras Trading SA	Geneva (Switzerland)	USD	981,547	100%	Subsidiary	2,255,594	923,446
Sarlux Srl	Sarroch (CA)	EUR	100,000,000	100%	Subsidiary	1,031,473,563	638,395,086
							697,233,105

(*) The subsidiary Deposito di Arcola Srl owns the remaining 0.1% share of Sarint SA

A comparison with the figures for the previous year is shown below.

	Registered office	% owned	31/12/2017	31/12/2016
Deposito di Arcola Srl	Arcola (SP)	100%	0	0
Parchi Eolici Ulassai Srl	Cagliari (CA)	100%	0	33,613
Sardeolica Srl	Uta (CA)	100%	33,613	0
Sargas Srl	Uta (CA)	100%	0	510
Sarint SA	Luxembourg	99.9%	6,919	6,919
Sartec Srl	Assemini (CA)	100%	17,383	17,383
Saras Trading SA	Geneva (Switzerland)	100%	923	923
Sarlux Srl	Sarroch (CA)	100%	638,395	638,395
Total			**697,233**	**697,743**

Changes in the carrying amount are as follows:

	31/12/2016	Payments	Revaluations	Other changes	Impairments of value	31/12/2017
Deposito di Arcola Srl	0	0	0	0	0	0
Parchi Eolici Ulassai Srl	33,613	0	0	(33,613)	0	0
Sardeolica Srl	0	0	0	33,613	0	33,613
Sargas Srl	510	0	0	(510)	0	0
Sarint SA	6,919	0	0	0	0	6,919
Sarlux Srl	638,395	0	0	0	0	638,395
Sartec Srl	17,383	0	0	0	0	17,383
Saras Trading SA	923	0	0	0	0	923
Total	**697,743**	**0**	**0**	**(510)**	**0**	**697,233**

As part of the Saras Group's reorganisation plan, the reverse merger of the parent company Parchi Eolici Ulassai Srl into the subsidiary Sardeolica Srl took place on 4 October 2017 in order to group the industrial activities of the wind sector into one single company, generating operational and management efficiencies.

The transaction became effective for accounting and tax purposes on 1 January 2017 and was conducted on the basis of "accounting continuity", i.e., by recognising all the assets and liabilities of the merged company into Sardeolica Srl's financial statements at the carrying amounts reported in the financial statements.

With respect to the subsidiary Sartec Srl, although the carrying amount of the equity investment is greater than the company's equity, no adjustment was recognised based on the positive results achieved by the subsidiary in the past few years and those expected in the forthcoming years.

None of Saras SpA's direct or indirect subsidiaries is listed on a regulated market.

5.2.3.2 Other investments

This item includes the 5.95% stake in Sarda Factoring SpA of Euro 495 thousand.

5.2.4 Deferred tax assets

Deferred tax assets of EUR 8,330 thousand at 31 December 2017 and EUR 20,809 thousand at 31 December 2016 are shown net of deferred tax liabilities, and break down as follows:

(Data in thousands of euros)	Balance at 31/12/2016	Provision	Uses	Other changes	Other changes (only S/P)	Balance at 31/12/2017
Deferred tax liabilities						
Less value final tax inventories	(1,464)	(239)				(1,703)
Unrealised exchange rate differences	0	(1,476)				(1,476)
Others	(230)	0		(243)		(473)
Total deferred taxes	**(1,694)**	**(1,715)**	**0**	**(243)**		**(3,652)**
Deferred tax assets						
Fund for risks and charges	4,123	2,204	(432)			5,895
Bad debt provision	1,032					1,032
Employee benefits and bonuses	311	282	(263)			330
Unrealised exchange rate differences	3,381		(3,381)			0
Excess maintenance costs	416	76	(107)			385
Tax assets tax loss transferred to National Consolidated	9,026	2	(9,012)		(16)	0
Port taxes set aside	4,063					4,063
Others	151	221	(95)			277
Total prepaid taxes	**22,503**	**2,785**	**(13,290)**	**0**	**(16)**	**11,982**
Net total	**20,809**	**1,070**	**(13,290)**	**(243)**	**(16)**	**8,330**

The most significant current changes were due to:

- the recovery of the tax asset (for a total of EUR 9,026 thousand), as a consequence of the offsetting allowed between the prior year tax losses and the taxable income for the year under the IRES national tax consolidation scheme;
- the release of deferred tax assets (for EUR 3,381 thousand) on the exchange rate differences recognised in prior years in respect of realised currency items.

The following table shows deferred tax assets/liabilities broken down into the current and non-current portions for 2017 and 2016:

(Data in thousands of euros)	2017 Short Term	2017 Medium-long term	2016 Short Term	2016 Medium-long term
Deferred tax liabilities				
Less value final tax inventories	(1,703)		(1,464)	
Unrealised exchange rate differences	(1,476)			
Others	(473)		(230)	
Total deferred taxes	**(3,652)**		**(1,694)**	
Deferred tax assets				
Risks and write-downs fund	5,895		5,155	
Bad debt provision		1,032		
Employee benefits and bonuses	282	48	206	105
Unrealised exchange rate differences	0		3,476	(95)
Excess maintenance costs	182	265	32	384
Tax assets tax loss transferred to National Consolidated	0		9,026	
Port taxes set aside	4,063		4,063	
Others	215		127	
Total prepaid taxes	**10,637**	**1,345**	**22,085**	**394**

5.2.5 Other financial assets

At 31 December 2017, the balance of this item was EUR 7,298 thousand (EUR 5,232 thousand the previous year) and relates mainly to medium-/long-term receivables.

5.3 Current liabilities

5.3.1 Short-term financial liabilities

The following table provides a breakdown of short-term financial liabilities.

Short-term financial liabilities	31/12/2017	31/12/2016	Change
Financial loans from Group companies	250,993	161,065	89,928
Current bank loans	0	15,000	(15,000)
Bank current accounts	4,101	76,006	(71,905)
Financial derivatives	53,455	71,783	(18,328)
Other short-term financial liabilities	99,069	34,627	64,442
Net income	**407,618**	**358,481**	**49,137**

"Loans from Group companies" include the balances of group company loans: the increase on the previous year reflects the greater amount of borrowings, obtained essentially from the subsidiary Sarlux Srl.

The item "Derivative instruments" includes the negative fair value of the derivatives held at financial year-end.

Financial derivatives	31/12/2017 Assets	31/12/2017 Liabilities	31/12/2016 Assets	31/12/2016 Liabilities
Interest rate swaps	302	(585)	0	(886)
Fair value derivatives on commodities	50,760	(52,255)	27,901	(68,900)
Fair value forward purchases and sales on exchange rates	0	(615)	4	(1,997)
Total	**51,062**	**(53,455)**	**27,905**	**(71,783)**

The following tables show the notional values and corresponding fair values of the derivatives outstanding at 31 December 2017 and 31 December 2016:

Type of Operation	31/12/2017				31/12/2016			
	Notional value		Fair value		Notional value		Fair value	
	Purchases	Sales	Pos.	Neg.	Purchases	Sales	Pos.	Neg.
oil and crude products	(96,995)	765,405	50,760	(52,255)	(458,391)	736,642	27,901	(68,900)
exchange rates	(255,000)	55,000	0	(615)	(192,951)	11,247	4	(1,997)
interest rates	(170,000)		302	(585)	(320,000)			(886)
Total	**(521,995)**	**820,405**	**51,062**	**(53,455)**	**(971,342)**	**747,889**	**27,905**	**(71,783)**

5.3.2 Trade and other payables

The table below shows a breakdown of this item:

Payables to suppliers	31/12/2017	31/12/2016	Change
Customers advances account	3,286	0	3,286
Payables to current suppliers	659,348	694,279	(34,931)
Trade payables to group companies	207,943	70,232	137,711
Total	**870,577**	**764,511**	**106,066**

"Advances from customers" relate to payments on account received from customers for the supply of oil products.

"Trade payables to group companies" essentially includes payables to Sarlux Srl and Saras Trading SA amounting to EUR 53,579 thousand and EUR 153,964 thousand, respectively.

"Trade payables" are down by EUR 34,931 thousand and mainly refer to the supply of crude oil.

5.3.3 Current tax liabilities

This item breaks down as shown below:

Current tax liabilities	31/12/2017	31/12/2016	Change
Payables for VAT	3,751	7,012	(3,261)
IRES payables	27,994	0	27,994
IRAP payables	120	0	120
Other tax payables	55,008	67,020	(12,012)
Total	**86,873**	**74,032**	**12,841**

The decrease in "Payables for VAT" mirrors the effect of credit positions on the Group's tax settlement scheme managed by Saras SpA. They substantially relate to the investments of the subsidiary Sarlux.

The increase in "IRES payables" shows the amounts due on the amount accrued during the year as part of the tax consolidation scheme.

"Other tax payables" chiefly includes excise duties on products introduced into the market amounting to EUR 53,131 thousand.

5.3.4 Other liabilities

A breakdown of other liabilities is shown below:

Other current liabilities	31/12/2017	31/12/2016	Change
Payables employee benefit and social security institutions	3,012	2,697	315
Payables due to employees	6,415	5,984	431
Payables to subsidiaries for tax transfers	34,991	120,435	(85,444)
Other current payables	23,019	22,069	950
Accrued liabilities	993	769	224
Deferred income	15	0	15
Total	**68,445**	**151,953**	**(83,508)**

"Payables due to employees" include the December remuneration yet to be paid, the portion of additional monthly payments accrued and performance bonuses for the achievement of business targets.

The item "Sums payable to subsidiaries due to tax transfers" includes payables to subsidiaries for taxes transferred based on the tax consolidation agreements already mentioned. The balance is mainly due to taxes transferred by the subsidiary Sarlux Srl.

The item "Other payables" mainly relates to port duties as previously determined by the customs authority in respect to the Parent Company relative to the 2005-2007 period. The appeal filed with the Provincial Tax Commission has seen the Company lose. A hearing should now be scheduled before the Regional Tax Commission.

Based on the progress of this dispute, the entire amount relating to port duties for the current and prior years has always been recognised on an accruals basis under "Services and sundry costs".

5.4 Non-current liabilities

5.4.1 Long-term financial liabilities

This item breaks down as shown below:

Long-term financial liabilities	31/12/2017	31/12/2016	Change
Non-current bonds	198,342	0	198,342
Non-current bank loans	58,798	183,438	(124,640)
Total	**257,140**	**183,438**	**73,702**

On 22 December 2017, Saras S.p.A made a private placement of bonds for a total nominal amount of EUR 200 million. The bonds, maturing on 28 December 2022, will have a fixed coupon of 1.70% per year. The company applied for the admission to trading of bonds on the Austrian multilateral trading system, Third Market of the Wiener Börse AG.

The proceeds from the bond issue were used to refinance part of the existing gross indebtedness, despite a positive net financial position, to support the investment plan which envisages measures to improve the site configuration, reliability and energy-efficiency projects and a major digitalisation project (Industry 4.0). This transaction will extend the average term of gross indebtedness, with the cost substantially unchanged.

Finally, on 29 December 2017, Saras repaid early the syndicated loan of a nominal amount of EUR 150 million.

Details of the terms and conditions of the loans are shown in the table below:

Values expressed in millions of euro	Commencement / renegotiation	Amount original	Rate base	Residual at 31/12/2015	Residual at 31/12/2016	Maturities 1 year	Maturities after one year	Maturities beyond 5 years	Guarantees mortgage
Saras SpA									
Pool financing	October 2016	150.0	Euribor 6m	148.4	148.7	15	133.7		
Unicredit	October 2016	50.0	Euribor 6m	49.7	49.7		49.7		
Pool financing	October 2016	265.0	Euribor 6m	262.7	–				
Total liabilities to banks for loans				**460.8**	**198.4**	**15.0**	**183.4**		

Values expressed in millions of euro	Commencement / renegotiation	Amount original	Rate base	Residual at 31/12/2016	Residual at 31/12/2017	Maturities 1 year	Maturities after one year	Maturities beyond 5 years	Guarantees mortgage
Saras SpA									
Pool financing	October 2016	150.0	Euribor 6m	148.4	-				
Unicredit	April 2017	50.0	Euribor 6m	49.7	49.7		49.7		
Pool financing	October 2016	265.0	Euribor 6m	-	–				
Bond	December 2017	200.0	170%	-	198.3		198.3		
Total liabilities to banks for loans				**198.4**	**248.0**	**0.0**	**248.0**		

The EUR 50 million loan, taken out by Saras SpA, is subject to the following covenants:

- financial covenants (involving compliance with the following ratios: Net debt/EBITDA <3.5 and net debt/equity <1.5, both ratios calculated on the basis of the Group's consolidated financial statements considering the previous 12 months)
- in corporate terms, mainly in relation to the company's ownership structure, a ban on changing business activities, reducing the share capital, selling the majority of its significant shareholdings or selling a significant portion of its non-current assets.

The loan was renegotiated during the year: the changes related to the interest rate.

Should the company fail to comply with these covenants, the lending party will have the right to request that the loan be repaid early.

The latest check revealed that the company complied with the above covenants.

5.4.2 Funds for risks and charges

Provisions for risks and charges may be analysed as follows:

Funds for risks and charges	31/12/2016	Provision	Use	Other reasons	31/12/2017
Other funds for risks and charges	12,687	0	(515)	0	12,172
Total	**12,687**	**0**	**(515)**	**0**	**12,172**

"Other risk provisions" mainly refer to provisions accrued in respect of tax and legal liabilities.

5.4.3 Provisions for employee benefits

A breakdown of this item is shown below:

Provisions for employee benefits	31/12/2017	31/12/2016	Change
Post-employment benefits	2,510	2,772	(262)
Total	**2,510**	**2,772**	**(262)**

Post-employment benefits are governed by article 2120 of the Italian Civil Code and reflect the estimated amount that the company will be required to pay its employees when they leave the company. The liability accrued at 31 December 2006 was determined according to actuarial methods.

The following table shows the changes in "Post-employment benefits":

Balance at 31.12.2015	2,894
Provision part for defined contributions	1,405
Interest	172
actuarial (income)/charges	21
Utilisations/ Contributions to supplementary funds or INPS Treasury	(1,720)
Balance at 31.12.2016	**2,772**
Provision part for defined contributions	1,696
Interest	34
actuarial (income)/charges	(70)
Utilisations/ Contributions to supplementary funds or INPS Treasury	(1,922)
Balance at 31.12.2017	**2,510**

5.4.4 Other liabilities

Other liabilities break down as follows:

Other non-current liabilities	31/12/2017	31/12/2016	Change
Other payables	3,874	6,972	(3,098)
Total	**3,874**	**6,972**	**(3,098)**

Advances from Group companies refer to the long-term portion of the payable to Sarlux Srl relating to the 'Feedstock Supply Agreement'. The decrease on the previous year-end balance is due to the transfer of the portion pertaining to the subsequent year from the long to the short-term bracket.

5.5 Equity

The equity comprises the following:

Total equity	31/12/2017	31/12/2016	Change
Share capital	54,630	54,630	–
Legal reserve	10,926	10,926	–
Other reserves	334,759	264,036	70,723
Net profit (loss) for the year	207,062	162,444	44,618
Total	**607,377**	**492,036**	**115,341**

Share capital

At 31 December 2017, the share capital of EUR 54,630 thousand, fully subscribed and paid up, comprised 951,000,000 ordinary shares without par value.

Legal reserve

The legal reserve was unchanged from the previous year and stood at one-fifth of the share capital.

Other reserves

This item of EUR 334,759 thousand increased by a net EUR 70,723 thousand on the previous year end. The net decrease was the combined result of:

- An increase due to the allocation of the previous year's profit, of EUR 162,444 thousand;
- Decrease due to the allocation of dividends, as approved by the Shareholders' Meeting on 20 April 2017 for EUR 93,601 thousand;
- an increase of EUR 1,811 thousand relating to the establishment of a reserve for the bonus allocation of shares to management under the companies' stock grant plans;
- an increase of EUR 69 thousand due to the actuarial effects of IAS 19.

Net result

The net profit for the year totalled EUR 207,062 thousand.

Restrictions on the distribution of equity reserves

The table below breaks down equity reserves at 31 December 2017 into the available portion, the non-distributable portion and the distributable portion:

Equity captions	Amount	Possibility of use	Amount available	Summary of uses performed in the three previous years: for loss coverage loss	Summary of uses performed in the three previous years: for other reasons
Share Capital	**54,629,667**				
Capital reserves:					
Share premium reserve	338,672,775	A – B – C	338,672,775		
Profit reserves:					
Revaluation reserve	64,037,748	A – B – C	64,037,748 (*)		
Legal reserve	10,925,934	B			
Profit (loss) carried forward	(536,016,950)		(536,016,950)		
Other reserves:					
Extraordinary reserve	377,047,929				
Treasury shares in portfolio	(46,482,569)				
Transition effect IFRS on undistributed profits	(72,484,295)				
	258,081,065	A – B – C	258,081,065 (*)		
Employee ownership reserve	2,623,115				
Non-distributable reserve pursuant to Art. 7, paragraph 6 of Legislative Decree 05/38	19,658,569	A – B	19,658,569		
Merger surplus	85,068,436	A – B – C	85,068,436		
Other reserves	102,636,076	A – B – C	102,636,076		
TOTAL	**400,316,435**		**332,137,719**		
Non-distributable amount			19,658,569 (**)		
Residual distributable share			312,479,150		

Legend: A – for capital increase/B – for covering losses/C – for distribution to shareholders

(*): of which subject to deferred taxation – (**): includes EUR 19.7 million for the "Non-distributable reserve pursuant to art. 7.6 of Legislative decree no. 38/05"

Dividends

On 20 April 2017, the Annual General Meeting of Shareholders of Saras SpA, convened to approve the financial statements closed as at 31 December 2016, resolved to pay a dividend of EUR 0.10 for each of the 936,010,146 ordinary shares in issue, for a total of EUR 93,601,014.60, taking them from profit for fiscal year 2015.

The Board of Directors made a proposal to the shareholders' meeting called on 27 April 2018 to distribute a dividend equal to 0.12 EUR per share for the year ended 31 December 2017.

The average number of shares outstanding was 936,010,146 in 2017, compared to 934,893,839 in 2016.

At 31 December 2017, Saras SpA held 14,989,854 treasury shares in relation to the bonus allocation of shares to the management of group companies.

6. Notes to the Income Statement

6.1 Revenues

6.1.1 Revenues from ordinary operations

Revenue from sales and services (EUR 7,778,855 thousand compared with EUR 5,909,723 thousand in 2016) rose by EUR 1,869,132 thousand. The increase is mainly due to the rise in the price of oil products during the year and the volumes sold.

Revenues from ordinary operations are broken down by geographical area in section 4 above.

6.1.2 Other income

The following table shows a breakdown of "Other income":

Other operating revenues	31/12/2017	31/12/2016	Change
Compensation for storage of mandatory stocks	4,480	3,140	1,340
Ship tanks hire	483	2,821	(2,338)
Recovery for claims and compensation	130	980	(850)
Other revenues	66,534	60,609	5,925
Total	**71,627**	**67,550**	**4,077**

The item "Other revenues" essentially comprises charges to Sarlux Srl for services provided under contracts that expire in 2020.

6.2 Costs

The following table shows a breakdown of the main costs.

6.2.1 Purchases of raw materials, replacement parts and consumables

Purchase of raw materials, consumables and supplies	31/12/2017	31/12/2016	Change
Purchase of raw materials	5,213,320	3,853,967	1,359,353
Purchase semi-finished products	200,847	267,702	(66,855)
Purchase supplies and consumables	464	383	81
Purchase finished products	1,762,938	872,752	890,186
Change in inventories	(244,091)	(41,872)	(202,219)
Total	6,933,478	4,952,932	1,980,546

Costs for the purchase of raw materials, consumables and supplies rose by EUR 1,980,546 thousand on the previous year, mainly due to the above-mentioned trend in crude oil and oil product prices and the rise in volumes sold.

6.2.2 Cost of services and sundry costs

Cost of services and sundry costs	31/12/2017	31/12/2016	Change
Costs for services	590,775	617,661	(26,886)
Costs for use of third-party goods	4,014	3,648	366
Provisions for risks	1,299	1,214	85
Other operating costs	2,612	8,555	(5,943)
Total	598,700	631,078	(32,378)

Service costs mainly comprise the processing costs paid to the subsidiary Sarlux Srl. The decrease on the previous year is due to the reduction in the unit fee following the fall in processing margins.

The item “Provisions for risks” includes provisions allocated for future risks and charges.

“Other operating costs” mainly comprise membership fees, non-income taxes and prior year losses.

6.2.3 Personnel costs

“Personnel costs” break down as follows:

Personnel costs	31/12/2017	31/12/2016	Change
Salaries and wages	22,237	20,989	1,248
Social security contributions	5,722	5,864	(142)
Post-employment benefits	1,696	1,405	291
Other costs	466	572	(106)
Remuneration to the Board of Directors	3,621	3,626	(5)
Total	33,742	32,456	1,286

It should be noted that the item also includes the valuation of the amount for the financial year relating to the stock grant plans.

The "Plan for the free assignment of shares of the Company to the management of the Saras Group" for the period 2013-2015 (the "2013/2015 Stock Grant Plan" or the "Plan") has come to a conclusion.

On February 29, 2016, the Board of Directors verified the achievement of the performance targets in accordance with Article 5 of the Plan and, in the next meeting on March 14, it resolved to grant 4,255,920 shares to the beneficiaries of the Plan.

In the third quarter of 2016, the new "Plan to grant free company shares to the Saras Group management" (the "Stock Grant Plan 2016/2018" or the "Plan") was launched, by assigning the maximum number of shares for the recipients of the Plan. The cost for the year, relating to the plan, amounted to EUR 1,509 thousand.

6.2.4 Depreciation/amortisation and write-downs

Depreciation/amortisation and write-downs figures are shown below:

Depreciation and write-downs	31/12/2017	31/12/2016	Change
Depreciation of intangible fixed assets	1,411	399	1,012
Depreciation of tangible fixed assets	874	1,313	(439)
Total	2,285	1,712	1,012

6.3 Net income (charges) from equity investments

6.4 Financial income and charges

A breakdown of financial income and charges is shown below:

Financial income	31/12/2017	31/12/2016	Change
Bank interest income	118	612	(494)
Unrealised differences on derivatives	41,265	19,275	21,990
Realised differences on derivatives	52,168	68,404	(16,236)
Interest from subsidiaries	2,530	776	1,754
Other income	0	807	(807)
Profit on exchange rates	96,173	51,392	44,781
Total	192,254	141,266	50,988

Financial charges	31/12/2017	31/12/2016	Change
Unrealised differences on derivatives	(42,067)	(56,359)	14,292
Realised differences on derivatives	(46,728)	(75,650)	28,922
Interest expenses on loans	(5,909)	(10,988)	5,079
Interest expenses on bonds	(58)	(7,106)	7,048
Interest from subsidiaries	(184)	(451)	267
Other (interest on mortgages, interest on arrears, etc.)	(5,189)	(10,820)	5,631
Other financial charges	(7,709)	(5,934)	(1,775)
Exchange rate losses	(80,940)	(63,187)	(17,753)
Total	(188,784)	(230,495)	41,711

The summary table below provides an analysis of the main changes during the year:

Financian income and charges	31/12/2017	31/12/2016	Change
Net interest	(8,692)	(27,977)	19,285
Result of derivative instruments, of which:	4,638	(44,330)	48,968
Realised	*5,440*	*(7,246)*	*12,686*
Fair value of open positions	*(802)*	*(37,084)*	*36,282*
Net exchange rate differences	15,233	(11,795)	27,028
Others	(7,709)	(5,127)	(2,582)
Total	3,470	(89,229)	92,699

As shown, the main changes relate to the net results of financial derivative instruments, partially offset by exchange rate differences. In this regard, please note that the derivative financial instruments being considered relate to hedging transactions for which "hedge accounting" has not been adopted.

6.5 Income tax

Income tax can be analysed as follows:

Income tax	31/12/2017	31/12/2016	Change
Current taxes	66,206	80,957	(14,751)
Net deferred (prepaid) taxes	12,439	8,167	4,272
Total	**78,645**	**89,124**	**(10,479)**

Current taxes comprise IRES (EUR 55,096 thousand) and IRAP (EUR 11,171 thousand) for the year. Deferred tax assets/liabilities relate to changes during the year in the temporary differences between amounts recognised in accordance with the Italian Civil Code and those recognised for tax purposes. The most significant change arises from the release of deferred tax assets against the use of prior year tax losses for IRES purposes (EUR 9,010).

Temporary differences in Income Statement:	TAXES 2017		TAXES 2016		
	(Deferred tax liabilities)	Deferred tax assets	(Deferred tax liabilities)	Deferred tax assets	Effect of changes
(Data in thousands of euros)					rates
Fund for risks and charges		1,772			
Different value final tax inventories	(239)				
Excess maintenance costs	(31)		73	73	
Employee benefits and bonuses		19			
Unrealised exchange rate differences	(4,857)		843	843	
Tax assets tax loss compensated in Nat. Tax Cons.	(9,010)				(1,316)
Other temporary differences	(93)	0			
TOTALS	**(14,230)**	**1,791**	**916**	**916**	**(1,316)**

Differences between the theoretical and effective IRES and IRAP tax rates for 2017 and 2016 are shown below (figures in EUR million):

IRES	2017	2016
RESULT BEFORE TAXES [A]	285.7	251.6
IRES THEORETICAL TAX [*24%] [B]	68.6	69.2
THEORETICAL TAX RATE [B/A*100] %	24.0%	27.5%
EFFECTIVE INCOME TAX [C]	67.6	75.7
EFFECTIVE TAX RATE [C/A*100] %	23.7%	30.1%

	TAX 2017	TAX RATE 2017	TAX 2016	TAX RATE 2016
Theoretical tax	**68.6**	**24.0%**	**69.2**	**27.5%**
Valuations investments and receivables from holdings	0.0	0.00%	5.0	1.99%
Dividends from subsidiaries	0.0	0.00%	0.0	0.00%
Effect rebate art. 1 D.L. 201/2011 (A.C.E.)	(0.8)	-0.24%	(1.7)	-0.63%
Taxes previous years	0.0	0.00%	(0.3)	-0.10%
Other permanent differences	(0.2)	-0.06%	3.5	1.28%
Effective tax	**67.6**	**23.7%**	**75.7**	**30.09%**

IRAP	2017	2016
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	282.2	359.1
DIFFERENCE BETWEEN ADJUSTED PRODUCTION VALUE AND COSTS (A)	282.2	359.1
IRAP THEORETICAL TAX [*3.9% IN 2017; *2.93% IN 2016] [B]	11.01	10.5
THEORETICAL TAX RATE [B/A*100] %	3.90%	2.93%
EFFECTIVE INCOME TAX [C]	11.08	13.4
EFFECTIVE TAX RATE [C/A*100] %	3.93%	3.7%

	TAX 2017	TAX RATE 2017	TAX 2016	TAX RATE 2016
Theoretical tax	**11.01**	**3.90%**	**10.5**	**2.93%**
Effects IRAP on IFRS reclassifications	0.0	0.00%	0.2	0.07%
Effect "tax wedge" refund on IRAP	0.0	0.00%	0.0	0.00%
Personnel expenses	0.18	0.07%	0.0	0.00%
Effect different regional rates on production value	(0.11)	-0.04%	2.2	0.62%
Non-recognisability Tax Asset for IRAP	0.0	0.00%	0.0	0.00%
Other permanent differences	0.0	0.00%	0.5	0.13%
Effective tax	**11.08**	**3.93%**	**13.4**	**3.75%**

7. Other information

For information on subsequent events, reference should be made to the relevant section in the Report on Operations.

7.1 Main legal actions pending

The company was subject to tax inspections and assessments by the tax authorities that led, in some cases, to disputes pending before tax courts.

Although the decisions made by the tax courts were contradictory with regard to the alleged violations, the Company assumes that the probability of any liability is remote; where instead the liability was deemed probable, appropriate provisions were made.

7.2 Transactions with related parties

The transactions carried out by Saras with related parties mainly concern the exchange of goods, the provision of services and arrangements of a financial nature. For information on guarantees given to and received from related parties, see section "7.6 Commitments" below.

The figures for commercial, miscellaneous and financial transactions with related parties are set out below, and information is provided on the largest transactions.

The effects on the statement of financial position of transactions or positions with related parties are summarised in the table below.

Description	Absolute value (Euro/000) and % on balance sheet 31/12/2017		Absolute value (Euro/000) and % on balance sheet 31/12/2016	
Related party transactions involving Saras Group's majority shareholders				
Current financial assets	22,256	23.36%	48,023	32.23%
Trade receivables	88,167	24.75%	44,441	11.63%
Other assets	13,369	48.45%	4,048	22.56%
Short-term financial liabilities	250,993	61.58%	161,035	0.00%
Trade and other payables	207,943	23.89%	73,438	50.50%
Other current liabilities	34,991	51.12%	–	
Other non-current liabilities	3,873	99.99%	6,972	9.61%
	–			
Revenues from ordinary operations	646,564	8.31%	316,135	5.35%
Other operating revenues	36,282	50.65%	38,227	56.59%
Purchases of raw materials, replacement parts and consumables	843,804	12.17%	5,264	0.11%
Cost of services and sundry costs	387,544	64.73%	446,637	70.80%
Net income (charges) from equity investments	(40)	100.00%	(18,298)	100.00%
Financial income	2,600	1.35%	806	0.57%
Financial charges	350	0.19%	395	0.17%
Other related parties				
Liquid assets	20	0.01%	2,340	0.86%
Short-term financial liabilities	–	0.00%	(20,000)	5.58%
Cost of services and sundry costs	(49)	0.01%	(142)	0.02%

Other related party transactions mainly refer to financial transactions carried out with the UBI Banca Group which became a related party in the first half of 2016. These transactions took place before this event.

With regard to the above-mentioned transactions, the agreements governing sales of oil and oil products reflect market conditions; where a market price is not available the price is established using market prices for similar materials or products. Where services are provided, the prices are aligned as far as possible with market conditions; expenses passed on in relation to seconded personnel are charged at cost, and interest on loans is charged at market rates.

Related parties include both the directors and auditors, whose remuneration is stated in 7.5.1 "Remuneration paid to directors and auditors, officers and key management personnel".

The effects of transactions or positions with related parties on the statement of financial position and the income statement are summarised in the table below:

	Absolute value (Euro/000) and % on balance sheet 31/12/2017			Absolute value (Euro/000) and % on balance sheet 31/12/2016		
	Related parted	Total	Incidence %	Related parted	Total	Incidence %
Liquid assets	20	378,236	0.01%	2,340	271,901	
Current financial assets	22,256	95,289	23.36%	48,023	149,007	32.23%
Trade receivables	88,167	356,247	24.75%	44,441	382,231	11.63%
Other assets	13,369	27,596	48.45%	4,048	17,943	22.56%
Short-term financial liabilities	250,993	407,618	61.58%	181,035	358,482	50.50%
Trade and other payables	207,943	870,577	23.89%	73,438	764,511	9.61%
Other current liabilities	34,991	68,445	51.12%	–	–	0.00%
Other non-current liabilities	3,873	3,874	99.99%	6,972	6,972	100.00%
Revenues from ordinary operations	646,564	7,778,855	8.31%	316,135	5,909,723	5.35%
Other operating revenues	36,282	71,627	50.65%	38,227	67,550	56.59%
Purchases of raw materials, replacement parts and consumables	843,804	6,933,478	12.17%	5,264	4,952,935	0.11%
Cost of services and sundry costs	387,544	598,700	64.73%	446,779	631,077	70.80%
Net income (charges) from equity investments	(40)	(40)	100%	(18,298)	18,298	100.00%
Financial income	2,600	192,254	1.35%	806	141,266	0.57%
Financial charges	350	188,784	0.19%	395	188,784	0.21%

The main cash flows with related parties are shown in the table below.

	31/12/2017	31/12/2016
Net income (charges) from equity investments	(40)	(18,298)
Dividends from invest. in subsidiaries	0	0
Decrease in trade receivables	(43,726)	(9,393)
Increase (Decrease) in trade and other payables	134,505	(2,952)
Change other current assets	9,321	(31,523)
Change other non-current liabilities	(3,099)	(3,099)
Interest received	2,600	806
Interest paid	(350)	(395)
Cash flow from (for) activities in the year	**99,211**	**(64,854)**
Dividends from invest. in subsidiaries	0	0
Cash flows from (used in) investing activities	**0**	**0**
Increase (Decrease) in financial liabilities	34,991	(113,030)
Cash flow from (for) financial activities	**34,991**	**(113,030)**
Total cash flows from/to related parties	**134,203**	**(177,884)**

The effects of cash flows with related parties are shown in the table below.

	Absolute value (Euro/000) and % on balance sheet 31/12/2017			Absolute value (Euro/000) and % on balance sheet 31/12/2016		
	Related parted	Total	Impact	Related parted	Total	Impact
Cash flow from (for) activities in the year	99,211	46,765	212.15%	(64,854)	192,407	-90.92%
Cash flow from (for) investment activities	0	91,513	0.00%	0	65,221	0.00%
Cash flow from (for) financial activities	34,991	(24,217)	N.A.	(113,030)	(755,699)	14.96%

7.3 Information pursuant to International Financial Reporting Standards 7 and 13 – Financial instruments: disclosures

The information on financial instruments to be disclosed in financial statements and interim reports, to the extent that it is applicable to Saras SpA., is mainly defined in IFRS 7 and 13.

IFRS 7 – Financial Instruments: Disclosures, requires entities to provide supplementary disclosures in financial statements that make it possible to evaluate:

a) the value of financial instruments with respect to the financial position and results of operations;

b) the nature and extent of the risks deriving from financial instruments to which the company is exposed during the year and at the reporting date, and the way in which this is managed.

IFRS 13 – Fair Value Measurement, which is applicable from 1 January 2013, requires supplementary disclosures on fair value, some of which is also required for interim reports. In general, the standard clarifies how fair value should be calculated for the purposes of financial statements, and it applies to all IFRS standards that require or permit fair value measurement or the presentation of information based on fair value.

Fair value hierarchy

Sub-paragraphs a) and b) of paragraph 93 of the standard in question require the submission of the amount of assets and liabilities measured at fair value broken down by fair value hierarchy. To this end, IFRS 13 defines a precise three-tier fair value hierarchy. The criterion used concerns the actual degree to which inputs used for the estimate can be observed. As such, the hierarchy establishes the various levels of reliability of fair value, depending on whether it is based on:

(a) (unadjusted) prices taken from an active market – as defined by IAS 39 – for the assets and liabilities being valued (level 1);

(b) valuation techniques that use inputs other listed prices, as in the point above, as a reference, which can either be observed directly (prices) or indirectly (derived from prices) on the market (level 2);

(c) valuation techniques that use inputs that are not based on observable market data as a reference (level 3).

Based on the above, the following table shows assets and liabilities measured at fair value by the company at 31 December 2017:

Type of Operation	31/12/2017 Assets	Fair value level 1	Fair value level 2	Fair value level 3	31/12/2017 Liabilities	Fair value level 1	Fair value level 2	Fair value level 3
Interest rate swaps	302		302		(585)		(585)	
Fair value derivatives on commodities	50,760	50,760			(52,255)	(52,255)	0	
Fair value forward purchases and sales on exchange rates	0		0		(615)		(615)	
Net income	**51,062**	**50,760**	**302**	**0**	**(53,455)**	**(52,255)**	**(1,200)**	**0**

The criterion used by the company specifies that financial assets and liabilities measured at fair value should be transferred from one level of the hierarchy to another on the date that the circumstances that cause the transfer become evident.

Pursuant to sub-paragraph c) of paragraph 93, there were no reclassifications among the various levels of the fair value hierarchy during the year.

Measurement techniques

As can be seen from the table in the section above, financial instruments measured at fair value largely consisted of derivatives entered into to mitigate exchange and interest rate risks and the risks of fluctuating crude oil and oil product prices.

Specifically, the fair measurement of these instruments is carried out:

- for interest and exchange rate derivatives, based on regular official statements received from counterparties (financial intermediaries) with which the instruments were created;

- for commodity-based derivatives, based on account statements on open positions that are periodically received from the clearing broker through which the instruments are purchased.

For all types of derivatives described above, the fair value measurements received from the counterparties for the open positions are verified by comparing them to the company's fair value measurement of the same positions. These internal measurements are carried out using reference parameters observable on markets (spot and forward interest rates, exchange rates, and crude oil and oil product prices available in active regulated markets).

The measurement does not take into account counterparty risk as the effect is not significant given the deposits securing the positions.

Saras SpA has no level 3 financial assets or liabilities measured at fair pursuant to IFRS 13.

With regard to the remaining financial assets and liabilities that are not directly measured at fair value, their carrying amount is close to their fair value.

The criteria contained in the standard supplement those set out for the recognition, measurement and disclosure in the financial statements of the financial assets and liabilities listed in IAS 32 (Financial Instruments: Disclosure and Presentation) and in IAS 39 (Financial Instruments: Recognition and Measurement).

The standard applies to all entities and all types of financial instrument, except for shareholdings in subsidiaries, affiliates and joint ventures accounted for in accordance with IAS 27, 28 or 31, employers' rights and obligations arising from employee benefit schemes (IAS 19), contracts relating to business combinations (IFRS 3), insurance contracts (IFRS 4) and financial instruments, contracts and obligations relating to share-based payments (IFRS 2).

7.3.1 Information on the Statement of Financial Position

Paragraphs 8 -19 of the standard require the company to disclose the carrying value of all financial instruments belonging to the categories set out in IAS 39, as well as detailed information where the company has opted to recognise financial assets or liabilities at fair value through profit and loss, or where it has reclassified financial assets, or where financial assets have been derecognised. Statement of financial position for Saras SpA at 31 December 2017 and 31 December 2016 are shown below, with details of the company's financial instruments.

31/12/2017	Accounting value of financial derivatives categories, defined according to IAS 39							
	Financial instruments at fair value through the income statement		Investments owned until maturities	Loans and credits	Disposables for the sale	Other liabilities valued at amortised cost	Others	Residual at 31/12/2017
	Designated at Fair value	Owned for negotiation						
ASSETS								
Current financial assets	**0**	**40,967**	**0**	**808,347**	**0**	**0**	**737,783**	**1,587,098**
Cash and cash equivalents				378,236				378,236
Other financial assets		40,967		54,322				95,289
Derivative instruments (FV, realised and guarantee deposits)		*40,967*		*31,466*				
Loans to third parties				*600*				
Payables to group companies				*22,256*				
Trade receivables				356,247				356,247
Payable to clients				*268,080*				
Trade receivables from group company				*88,167*				
Inventories							726,627	726,627
Current tax assets							3,105	3,105
Other assets				19,543			8,051	27,594
Other tax credits				*19,543*			*8,051*	
Non-current assets	**0**	**0**	**0**	**7,298**	**495**	**0**	**721,695**	**729,488**
Property, plant and equipment							12,398	12,398
Intangible assets							3,734	3,734
Equity investments at cost							697,233	697,233
Other investments					495			495
Deferred tax assets							8,330	8,330
Other financial assets				7,298				7,298
Loans to subsidiaries				*0*				
Sundry receivables				*7,298*				
Total active financial instruments	**0**	**40,967**	**0**	**815,645**	**495**	**0**	**1,459,478**	**2,316,586**
LIABILITIES								
Current liabilities	**0**	**53,455**	**0**	**0**	**0**	**1,293,185**	**86,873**	**1,433,513**
Short-term financial liabilities		53,455				354,163		407,618
Bonds loans								
Bank loans						*0*		
C/a advances								
Financial receivables from Group companies						*250,994*		
Derivative instruments		*53,455*						
Other financial payables						*103,169*		
Trade and other payables						870,577		870,577
Current tax liabilities							86,873	86,873
Other liabilities						68,445		68,445
Other payables						*68,445*		
Non-current liabilities	**0**	**0**	**0**	**0**	**0**	**261,015**	**14,682**	**275,696**
Long-term financial liabilities						257,140		257,140
Bank loans						*49,975*		
Bonds loans						*198,342*		
Others						*8,823*		
Risk funds							12,172	12,172
Provisions for employee benefits							2,510	2,510
Other liabilities						3,874		3,874
Total passive financial instruments	**0**	**53,455**	**0**	**0**	**0**	**1,554,200**	**101,554**	**1,709,209**

31/12/2016	Accounting value of financial derivatives categories, defined according to IAS 39							
	Financial instruments at fair value through the income statement		Investments owned until maturities	Loans and credits	Disposables for the sale	Other liabilities valued at amortised cost	Others	Residual at 31/12/2016
	Designated at Fair value	Owned for negotiation						
ASSETS								
Current financial assets	**0**	**19,933**	**0**	**793,340**	**0**	**0**	**502,583**	**1,315,857**
Cash and cash equivalents				271,901				271,901
Other financial assets		19,933		129,074				149,007
Derivative instruments (FV, realised and guarantee deposits)		*19,933*		*81,693*				
Loans to third parties				*600*				
Payables to group companies				*46,781*				
Trade receivables				382,230				382,230
Receivables from clients				*340,036*				
Trade receivables from group company				*42,193*				
Inventories							482,535	482,535
Current tax assets							12,241	12,241
Other assets				10,136			7,806	17,943
Other tax credits				*10,136*			*7,806*	
Non-current assets	**0**	**0**	**0**	**5,232**	**495**	**0**	**725,299**	**731,025**
Property, plant and equipment							4,344	4,344
Intangible assets							2,402	2,402
Equity investments at cost							697,743	697,743
Other investments					495			495
Deferred tax assets							20,809	20,809
Other financial assets				5,232				5,232
Loans to subsidiaries				*0*				
Other tax credits				*5,232*				
Total active financial instruments	**0**	**19,933**	**0**	**798,573**	**495**	**0**	**1,227,881**	**2,046,882**
LIABILITIES								
Current liabilities	**0**	**71,783**	**0**	**0**	**0**	**1,203,163**	**74,032**	**1,348,977**
Short-term financial liabilities		71,783				286,698		358,481
Bonds loans								
Bank loans						*15,000*		
C/a advances								
Financial payables to Group companies						*161,065*		
Derivative instruments		*71,783*						
Other financial payables						*110,633*		
Trade and other payables						764,511		764,511
Current tax liabilities							74,032	74,032
Other liabilities						151,953		151,953
Other payables						*151,953*		
Non-current liabilities	**0**	**0**	**0**	**0**	**0**	**190,410**	**15,459**	**205,869**
Long-term financial liabilities						183,438		183,438
Bank loans						*183,438*		
Bonds loans						*0*		
Risk funds							12,687	12,687
Provisions for employee benefits							2,772	2,772
Other liabilities						6,972		6,972
Total passive financial instruments	**0**	**71,783**	**0**	**0**	**0**	**1,393,573**	**89,491**	**1,554,846**

Financial instruments recorded at fair value in the income statement comprise derivatives held by the company, as described in paragraph 5.3.1 above. The derivatives contracts on commodities, interest rates and exchange rates were entered into to mitigate the risks inherent in the business in which it operates, arising from changes in the price of crude and oil products (futures, options and swaps), to hedge interest rate risk on loans taken out and to hedge exchange rate risk relating to its currency positions.

All trade receivables and most other current and non-current receivables are classed as "Loans" since they consist of non-derivative financial assets with fixed or determinable payments that are not quoted on any active market. The carrying amount is close to fair value.

Other financial liabilities recognised at amortised cost include all the company's financial liabilities and trade payables arising from the company's contractual obligations to deliver cash or other financial assets to another entity.

During the year, no financial assets valued at amortised cost were restated at fair value or vice versa; nor were any financial assets transferred and derecognised, with the exception of

trade receivables sold on a “without recourse” basis. An analysis of the contractual terms and conditions confirmed that these receivables could be derecognised.

All financial assets are booked on the trade date.

During the year, the company met all its obligations with respect to the scheduled repayment of loans in place at the end of the period.

7.3.2 Information on the statement of comprehensive income

Paragraph 20 of the standard in question requires companies to state the net gains or losses generated by financial assets and liabilities, broken down according to the various income statement items. This information may be provided in either the financial statements or the notes to the accounts. To avoid overburdening the financial statements with information, the company has opted for the second alternative, as recommended in the appendix to the accounting standard. The following tables therefore show details of income statement items for the current and the previous year.

31/12/2017	Net profits and losses, active and passive interests, fees and expenses generated from:								
	Financial instruments at fair value through the income statement		Investments owned until maturities	Loans and credits	Disposables for the sale	Other liabilities valued at amortised cost	Total from instruments financial	Others	Residual at 31/12/2017
	Designated at Fair value	Owned for negotiation							
Revenues from ordinary operations								7,778,855	7,778,855
Other income								71,627	71,627
Total returns							**0**	**7,850,482**	**7,850,482**
Purchases of raw materials, consumables and supplies								(6,933,478)	(6,933,478)
Cost of services and sundry costs								(598,700)	(598,700)
Personnel costs								(33,742)	(33,742)
Amortisation and depreciation								(2,285)	(2,285)
Total costs							**0**	**(7,568,205)**	**(7,568,205)**
Operating result	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**282,277**	**282,277**
Net income (charges) from equity investments								(40)	(40)
Other financial income (charges)							3,470		3,470
from titles held for the purpose of trading									
- of which:									
Realised differentials									
Change of FV									
from interest on current accounts				*118*			*118*		
from loans made to Group companies				*2,530*			*2,530*		
from derivative instruments		*4,637*					*4,637*		
- of which:									
Realised differentials		*5,440*							
Change of FV		*(802)*							
from other financial assets									
from Interest on bank loans						*(11,156)*	*(11,156)*		
from Interest on loans from Group companies						*(184)*	*(184)*		
from other credits/debts				*15,235*		*(7,709)*	*7,526*		
Result before taxes	**0**	**4,637**	**0**	**17,882**	**0**	**(19,049)**	**3,470**	**282,236**	**285,707**
Income tax									78,645
Net result									**207,062**

31/12/2016	Net profits and losses, active and passive interests, fees and expenses generated from:								
	Financial instruments at fair value through the income statement		Investments owned until maturities	Loans and credits	Disposables for the sale	Other liabilities valued at amortised cost	Total from instruments financial	Others	Residual at 31/12/2016
	Designated at Fair value	Owned for negotiation							
Revenues from ordinary operations								5,909,723	5,909,723
Other income								67,550	67,550
Total returns							0	5,977,273	5,977,273
Purchases of raw materials, consumables and supplies								(4,952,932)	(4,952,932)
Cost of services and sundry costs								(631,078)	(631,078)
Personnel costs								(32,456)	(32,456)
Amortisation and depreciation								(1,712)	(1,712)
Total costs							0	(5,618,178)	(5,618,178)
Operating result	0	0	0	0	0	0	0	359,095	359,095
Net income (charges) from equity investments								(18,298)	(18,298)
Other financial income (charges)							(89,229)		(89,229)
from titles held for the purpose of trading									
- of which:									
Realised differentials									
Change of FV									
from interest on current accounts				*612*			*612*		
from loans made to Group companies				*776*			*776*		
from derivative instruments		*(44,329)*					*(44,329)*		
- of which:									
Realised differentials		*(7,246)*							
Change of FV		*(37,083)*							
from other financial assets									
from Interest on bank loans						*(28,914)*	*(28,914)*		
from Interest on loans from Group companies						*(451)*	*(451)*		
from other credits/debts				*(10,990)*		*(5,934)*	*(16,924)*		
Result before taxes	0	(44,329)	0	(9,601)	0	(35,299)	(89,229)	340,797	251,568
Income tax									89,124
Net result									162,444

Financial instruments measured at fair value through profit or loss generated net charges of EUR 4,637 thousand (2016: net charges of EUR 44,329 thousand), mainly due to changes in realised differentials and in the fair value of derivatives.

Financial instruments classified as 'Loans' generated income of EUR 17,882 thousand (versus EUR 9,601 thousand the previous year), chiefly owing to unrealised exchange rate differences on commercial positions.

Other financial liabilities measured at amortised cost generated a loss of EUR 19,049 thousand (2016: EUR 35,299 thousand): these were essentially borrowing costs.

7.3.3 Supplementary information

7.3.3.1 Hedge accounting

As described above, the company enters into derivative contracts on commodities to hedge risks arising from changes in the price of crude oil and oil products, and on interest rates to hedge the interest rate risks relating to the loans obtained.

At 31 December 2017, outstanding derivatives contracts mainly comprised:

- futures, options and swaps on oil products, classified as financial instruments held for trading;
- Interest Rate Swaps
- Forwards on the EUR/USD exchange rate.

These instruments are recorded at fair value: changes in fair value during the period are recorded in the income statement under financial income or financial charges.

The outstanding positions on commodities and on foreign exchange at the reporting date are expected to be closed out by the end of the first quarter of 2017, while the interest rate swaps have the same duration as the underlying loans to which they refer.

7.3.3.2 Fair value

Financial assets and liabilities, with the exception of derivatives, are recognised at amortised cost: as these liabilities mainly relate to positions underlying transactions due to be settled in the short term, or financial liabilities subject to interest rates in line with current market rates, amortised cost does not differ from the fair value at 31 December 2016.

The bond carries a fixed rate and market values from the relevant stock market are not available. The value of the related cash flows, discounted to present value at the market rate, does not differ significantly from the value recorded in the financial statements.

In accordance with the amendment to IFRS 7 implemented in the EU with EC Regulation 1165 of 27 November 2009, all financial instruments booked at fair value are calculated based on valuation methods that use observable market parameters other than the prices of these instruments as their reference, except for forex and commodities futures classified under “Other current assets” or “Short-term financial liabilities”, which are valued based on prices in an active market; moreover, during the year there were no changes in valuation methods compared with the previous year.

7.3.4 Risks deriving from financial instruments

The risks deriving from the financial instruments to which the company is exposed are:

a. credit risk, i.e. the risk that the company will incur a loss in the event that a counterparty to a financial instrument defaults;

b. liquidity risk, i.e. the risk that the company is not able to service payment obligations according to the agreed maturities of its financial liabilities;

c. market risk, i.e. the risk relating to the performance of markets in which the company operates, which incorporates foreign exchange risk, interest rate risk and the price risk of crude oil and oil products.

For information on risk management policies relating to the above, please refer to the relevant section of the Report on Operations.

7.3.4.1 Credit risk

The company’s exposure to credit risk relates mainly to trade receivables, other current and non-current receivables, assets held for trading and cash and cash equivalents.

The information required by paragraphs 36-38 is shown in the tables below.

	Accounting value at 31/12/2017		Credit risk		Analysis of maturities by financial activity, ex paragraph 37 b) IFRS 7						Value impairment loss	
	Total	of which: financial instruments	Maximum exposure at credit risk, without consideration of guarantees or other similar instruments	Guarantees	Current	Expired 0-30 days	Expired 31-60 days	Expired 61-90 days	Expired beyond 90 days	Total	Determined in the financial year	Progressive
Current assets	**1,587,097**	**834,888**	**834,888**		**778,653**	**0**	**6,644**	**12,750**	**36,841**	**834,888**	**0**	**(5,117)**
Cash and cash equivalents	378,236	378,236	378,236		378,236					378,236		
Other financial assets held for trading	95,289	95,289	95,289		95,289					95,289		
Trade receivables from third parties	361,364	361,364	361,364	167,814	305,128		6,644	12,750	36,841	361,364		
Bad debt provision	(5,117)											(5,117)
Inventories	726,627											
Current tax assets	3,105											
Other assets	27,594		0		0					0		
Non-current assets	**729,489**	**4,147**	**4,147**		**0**	**0**	**0**	**0**	**0**	**0**		
Property, plant and equipment	12,399											
Intangible assets	3,734											
Equity investments at cost	697,233											
Other investments	495	495	495									
Deferred tax assets	8,330											
Other financial assets	7,298	3,652	3,652							0		
Total assets	**2,316,586**	**839,035**	**839,035**		**778,653**	**0**	**6,644**	**12,750**	**36,841**	**834,888**		

	Accounting value at 31/12/2016		Credit risk		Analysis of maturities by financial activity, ex paragraph 37 b) IFRS 7						Value impairment loss	
	Total	of which: financial instruments	Maximum exposure at credit risk, without consideration of guarantees or other similar instruments	Guarantees	Current	Expired				Total	Determined in the financial year	Progressive
						0-30 days	31-60 days	61-90 days	beyond 90 days			
Current assets	**1,315,857**	**808,255**	**808,255**		**668,880**	**99,809**	**904**	**28,240**	**10,423**	**808,255**	**0**	**(5,117)**
Cash and cash equivalents	271,901	271,901	271,901		271,901					271,901		
Other financial assets held for trading	149,007	149,007	149,007		149,007					149,007		
Trade receivables from third parties	387,348	387,348	387,348	248,123	247,972	99,809	904	28,240	10,423	387,348		
Bad debt provision	(5,117)											(5,117)
Inventories	482,535											
Current tax assets	12,241											
Other assets	17,943		0		0					0		
Non-current assets	**731,025**	**5,379**	**5,379**		**0**	**0**	**0**	**0**	**0**	**0**		
Property, plant and equipment	4,344											
Intangible assets	2,402											
Equity investments at cost	697,743											
Other investments	495	495	495									
Deferred tax assets	20,809											
Other financial assets	5,232	4,884	4,884							0		
Total assets	**2,046,882**	**813,634**	**813,634**		**668,880**	**99,809**	**904**	**28,240**	**10,423**	**808,255**		

Guarantees on receivables are represented by letters of credit obtained by the company in relation to deliveries to certain customers, sureties obtained from customers and credit insurance.

7.3.4.2 Liquidity risk

The company's exposure to liquidity risk relates mainly to trade payables and bank loans. The capacity for self-financing, together with the low level of debt, leads us to consider that the liquidity risk is moderate.

The company complied with all its obligations with respect to scheduled repayments of loans outstanding at the end of the period.

The corresponding quantitative information required by paragraph 39 of the relevant standard is provided below:

	Accounting value at 31/12/2017		Liquidity risk		Analysis of maturities for financial liabilities, ex paragraph 39 a) IFRS 7					
	Total	of which: financial instruments	Nominal value of the financial liabilities	Guarantee	2018	2019	2020	2021	2022	beyond 5 years
LIABILITIES										
Current liabilities	**1,433,513**	**1,346,640**	**1,346,640**	**0**	**1,351,057**	**0**	**0**	**0**	**0**	**0**
Short-term financial liabilities	407,618	407,618								
Bank loans		*0*	*0*		*0*					
C/a advances										
Financial receivables from group companies		*250,993*	*250,993*		*250,993*					
Interest rates (final average rate = 1.76%)					*4,417*					
Derivative instruments		*53,455*	*53,455*		*53,455*					
Other financial payables		*103,170*	*103,170*		*103,170*					
Trade and other payables	870,577	870,577	870,577		870,577					
Current tax liabilities	86,873									
Other liabilities	68,445	68,445	68,445		68,445					
Non-current liabilities	**275,696**	**257,140**	**250,000**	**0**	**0**	**4,970**	**55,850**	**3,230**	**204,210**	**0**
Long-term financial liabilities	257,140	257,140	250,000							
Bank loans		*49,975*	*50,000*				50,000			
Bonds loans		*198,342*	*200,000*						*200,000*	
Others		*8,823*								
Amount interest medium-long term loan rates (rate = 1,76%)						*0*	*880*	*0*	*0*	
Amount interest bonds						0	0	0	4,210	
Risk funds	12,172									
Provisions for employee benefits	2,510									
Other liabilities	3,873		0			4,970	4,970	3,230		
Total liabilities	**1,709,209**	**1,603,780**	**1,596,640**	**0**	**1,351,057**	**4,970**	**55,850**	**3,230**	**204,210**	**0**

	Accounting value at 31/12/2016		Liquidity risk		Analysis of maturities for financial liabilities, ex paragraph 39 a) IFRS 7					
	Total	of which: financial instru-ments	Nominal value of the financial liabilities	Guarantee	2017	2018	2019	2020	2021	beyond 5 years
LIABILITIES										
Current liabilities	**1,348,977**	**1,274,945**	**1,274,945**	**0**	**1,280,864**	**0**	**0**	**0**	**0**	**0**
Short-term financial liabilities	358,481	358,481								
Bank loans		*15,000*	*15,000*		15,000					
C/a advances										
Financial receivables from group companies		*161,064*	*161,064*		161,064					
Interest rates (final average rate = 4,22%)					*7,430*					
Derivative instruments		*71,783*	*71,783*		70,272					
Other financial payables		*110,634*	*110,634*		110,634					
Trade and other payables	764,511	764,511	764,511		764,511					
Current tax liabilities	74,032									
Other liabilities	151,953	151,953	151,953		151,953					
Non-current liabilities	**205,868**	**183,438**	**185,000**	**0**	**0**	**36,236**	**36,236**	**86,606**	**46,899**	**0**
Long-term financial liabilities	183,438	183,438	185,000							
Bank loans		*183,438*	*185,000*			30,000	30,000	80,000	45,000	
Bonds loans										
Medium-long term loan rates (rate = 4,22%)						*1,266*	*1,266*	*3,376*	*1,899*	
Amount interest bonds					*0*	*0*	*0*	*0*		
Risk funds	12,687									
Provisions for employee benefits	2,771									
Other liabilities	6,972		0			4,970	4,970	3,230		
Total liabilities	**1,554,845**	**1,458,383**	**1,459,945**	**0**	**1,280,864**	**36,236**	**36,236**	**86,606**	**46,899**	**0**

The fair value of derivatives recognised in the financial statements mainly relates to current positions.

The hedging derivative instruments included in current financial liabilities include interest rate swaps on the Company's loans: the nominal future interest flows thereon are already included in "Interest on medium/long term loans" in the "Non-current liabilities" section of the table.

7.3.4.3 Market risk

As explained above, the market risks to which the company is exposed through its holdings of financial instruments relate to:

- the EUR/USD exchange rate, which affects the value of cash and cash equivalents and the receivables and payables recorded at the reporting date, and which determines the exchange rate gains and losses recorded under "Financial income" or "Financial charges" as well as the fair value of derivatives held at the reporting date;
- the Euribor interest rate, to which the interest rates paid by the company on its loans are indexed, as well as the fair value of derivatives held at the reporting date;
- prices of crude oil and oil products, which affect the fair value of the derivatives in place at the reporting date.

As required by paragraph 40 of IFRS 7, sensitivity analysis was performed for each type of risk to which the company is exposed at the reporting date, which shows the effects of these risks on the income statement and equity. The ranges used in the sensitivity analysis (exchange rate, interest rate and crude oil price) are in line with management forecasts. The results of the analysis are shown in the tables below.

Euro/US dollar exchange rate

At the reporting date, the Company had financial instruments denominated in US dollars. These were mainly recognised under trade receivables and payables.

A simulation was performed of the impact on the profit for the year and equity, assuming a variation of +/- 10% in the EUR/USD closing rate, which was used to translate foreign currency positions for the preparation of the statement of financial position.

2017				Reference parameter change	
Euro/US dollar EXCHANGE RATE					
Balance sheet item	Amount in currency	Exchange Euro / US Dollar	Amount in (thousands of €)	-10%	+10%
Currency net position	(93,873)	1.1993	(83,001)		
Effect on result before tax				(9,222)	7,546
Effect on net result (and equity)				(6,327)	5,176

The following table shows the simulation at 31 December 2016:

2016				Reference parameter change	
Euro/US dollar EXCHANGE RATE					
Balance sheet item	Amount in currency	Exchange Euro / US Dollar	Amount in (thousands of €)	-10%	+10%
Currency net position	(101,897)	1.0541	(57,817)		
Effect on result before tax				(6,424)	5,256
Effect on net result (and equity)				(4,407)	3,606

To hedge the effects of sensitivity to the EUR/USD exchange rate, the Company also enters into forward exchange rate contracts, which are recorded in the financial statements at their fair value on the reporting date: As the fair value is inevitably affected by the underlying exchange rate, the Group carried out a simulation of the impact on Group net profit and consequentially equity, assuming a change of +/-10% in the benchmark parameters based on this year's exchange rate trends; the results obtained from such a variation are reported at a 99.55% confidence level.

The results of the simulation are shown in the tables below.

2017			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2017	-10%	+10%
Exchange rates	(891)	17,590	(16,017)
	(891)	**17,590**	**(16,017)**
Effect on result before tax		**17,590**	**(16,017)**
Effect on net result (and equity)		**12,753**	**(11,612)**

2016			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2016	-10%	+10%
Exchange rates	(1,997)	20,167	(16,502)
	(1,997)	**20,167**	**(16,502)**
Effect on result before tax		**20,167**	**(16,502)**
Effect on net result (and equity)		**14,621**	**(11,964)**

Interest rates

The company has medium-term/long-term as well as short-term exposure to variable interest rates indexed to Euribor.

A simulation of the impact of this variable on the net profit for the year and equity was carried out, assuming a change of +/- 50 basis points in rates and only taking into account the portion of variable-rate funding.

The analysis measures the impact in terms of greater or lower interest expense that would have accrued on floating-rate loans in 2017.

2017				
VARUABLE INTEREST RATES			Reference parameter change	
	Average annual rate of interest 2017	Passive interest annual	-50 bps	+50 bps
Short and medium-long term financial liabilities	1.76%	(12,166)		
Effect on result before tax			**3,456**	**(3,456)**
Effect on net profit (and equity)			**2,506**	**(2,506)**

The following table shows the simulation at 31 December 2016:

2016				
VARIABLE INTEREST RATES			Reference parameter change	
	Average annual rate of interest 2016	Passive interest annual	-50 bps	+50 bps
Short and medium-long term financial liabilities	4.22%	(29,998)		
Effect on result before tax			**3,551**	**(3,551)**
Effect on net profit (and equity)			**2,574**	**(2,574)**

In addition, the fair value of the interest rate swaps and options outstanding at the reporting date is affected by movements in the Euribor rate: a simulation of the impact of this variable on the profit for the year and equity was carried out, assuming a change of +/- 25 basis points in rates, which was considered appropriate given potential rate fluctuations (the simulation for the previous year was adjusted).

The results of the simulation are shown in the tables below.

2017		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2017	-25 bps	+25 bps
Fair value of Interest rate swaps	(585)	(385)	(936)
	(585)	(385)	(936)
Effect on result before tax		(385)	(936)
Effect on net result (and equity)		(279)	(679)

The simulation at 31 December 2016 is shown below:

2016		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2016	-25 bps	+25 bps
Fair value of Interest rate swaps	(886)	316	232
	(886)	316	232
Effect on result before tax		316	232
Effect on net result (and equity)		229	168

Prices of crude and oil products

Oil prices affect the fair value of derivatives outstanding at the reporting date and the relevant differences recognised in the income statement: derivatives at 31 December 2017 consisted of futures, swaps and options on oil products, and the fair value recorded in the statement of financial position was derived from the market prices of the relevant underlying assets at that date. The company therefore performed a simulation of the impact of this variable on net profit and equity, assuming a change of +/- 20% in oil prices.

The comparative results of the simulation are shown in the tables below:

2017			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2017	-20%	+20%
Crude and oil products	(1,495)	47,166	(50,029)
	(1,495)	47,166	(50,029)
Effect on result before tax		47,166	(50,029)
Effect on net result (and equity)		34,196	(36,271)

The simulation at 31 December 2016 is shown below:

2016			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2016	-20%	+20%
Crude and oil products	(40,532)	85,413	(85,413)
	(40,532)	85,413	(85,413)
Effect on result before tax		85,413	(85,413)
Effect on net result (and equity)		61,925	(61,925)

The above analysis of the company's exposure to risks relating to financial instruments shows that there are no significant concentrations of risk in terms of counterparty, geographical area or market, while the concentration risk relating to exposure to the US dollar is mitigated by the hedging policies implemented.

7.4 Average staff numbers

The average number of employees, by category, is shown below.

average staff numbers	2017	2016
Top management	36	34
White collars	221	218
Intermediates	0	0
Blue collars	0	0
Net income	257	252

The number of employees increased from 253 at the end of 2016 to 262 at 31 December 2017.

7.5 Tables showing the remuneration and shareholdings of directors and auditors, general managers and senior managers with strategic responsibilities

The following tables provide information on remuneration and shareholdings of directors and statutory auditors, the general manager and senior managers with strategic responsibilities, i.e. the Chief Financial Officer.

7.5.1 Remuneration paid to directors and statutory auditors, officers and key management personnel

(A)	(B)	(C)		(D)	(1)	(2)	(3)	(4)
Name and surname	Position	Period of office		Expiry of office	Fees for the position in the company	Non-monetary benefits	Bonus and other incentives	Other remunera-tions
The Board of Directors							(*)	(*)
Gian Marco Moratti	Chairman	01/01/2017	31/12/2017	approved 2017 financial statements	1,536,000			
Massimo Moratti	CEO	01/01/2017	31/12/2017	approved 2017 financial statements	1,536,000			
Angelo Moratti	Vice-Chairman	01/01/2017	31/12/2017	approved 2017 financial statements	236,000			-
Dario Scaffardi	Vice-Chairman Executive – Gen. Gen.	01/01/2017	31/12/2017	approved 2017 financial statements	36,000			1,211,290
Gabriele Moratti	Non-executive Director	01/01/2017	31/12/2017	approved 2017 financial statements	36,000			90,615
Angelo Mario Moratti	Non-executive Director	01/01/2017	31/12/2017	approved 2017 financial statements	36,000			240,735
Giovanni Moratti	Non-executive Director	20/04/2017	31/12/2017		25,151			62,049
Gabriele Previati	Non-executive Director	01/01/2017	31/12/2017	approved 2017 financial statements	36,000			
Gilberto Callera	Independent Director	01/01/2017	31/12/2017	approved 2017 financial statements	36,000			
Adriana Cerretelli	Independent Director	01/01/2017	31/12/2017	approved 2017 financial statements	36,000			
Isabelle Harvie-Watt	Independent Director	01/01/2017	31/12/2017	approved 2017 financial statements	36,000			
Laura Fidanza	Independent Director	01/01/2017	31/12/2017	approved 2017 financial statements	36,000			
Andrey Nikolayevich Shishkin	Non-executive Director	01/01/2017	17/02/2017		4,537			
(*) employment responsibilities								
Board of Statutory Auditors								(**)
Giancarla Branda	Chairman	01/01/2017	31/12/2017	approved 2017 financial statements	68,475			
Paola Simonelli	Statutory Auditor	01/01/2017	31/12/2017	approved 2017 financial statements	40,000			5,344
Giovanni Luigi Camera	Statutory Auditor	01/01/2017	31/12/2017	approved 2017 financial statements	40,000			51,500
Pinuccia Mazza	Deputy Auditor	01/01/2017	31/12/2017	approved 2017 financial statements				
Giovanni Fiori	Deputy Auditor	01/01/2017	13/12/2017					
(**) auditing remunerations from other Group's companies								
Compliance Committee								(***)
Gabriele Previati	Chairman	01/01/2017	31/12/2017	approved 2017 financial statements	45,000			30,000
Giovanni Luigi Camera	Member	01/01/2017	31/12/2017	approved 2017 financial statements	25,000			15,000
Simona Berri	Member	01/01/2017	31/12/2017	approved 2017 financial statements				117,486
Ferruccio Bellelli	Member	01/01/2017	31/12/2017	approved 2017 financial statements				141,885
Marco Tonellotto	Member	01/01/2017	31/12/2017	approved 2017 financial statements				25,000
(***) including the remuneration from other group companies								
Risk and control committee								
Gilberto Callera	Chairman	01/01/2017	31/12/2017		40,000			
Adriana Cerretelli	Member	01/01/2017	31/12/2017		35,000			
Isabelle Harvie-Watt	Member	01/01/2017	31/12/2017		35,000			
Laura Fidanza	Member	01/01/2017	31/12/2017		35,000			
Gabriele Previati	Member	01/01/2017	31/12/2017		35,000			
Remuneration Committee								
Gilberto Callera	Chairman	01/01/2017	31/12/2017		40,000			
Laura Fidanza	Member	01/01/2017	31/12/2017		35,000			
Gabriele Previati	Member	01/01/2017	31/12/2017		35,000			
Senior personnel with strategic responsibility								**656,852**

At the reporting date, post-employment benefits (not included in the table above) totalling EUR 208 thousand had not yet been paid.

7.5.2 Equity investments held by directors and statutory auditors, officers and key management personnel

Name and surname	Position	Company	Number of shares owned at the end of the previous financial year	Number shares purchased	Number shares sold	Number of shares owned at the end of the current financial year
Gian Marco Moratti	Chairman	Saras SpA	–	–	–	–
Massimo Moratti	CEO	Saras SpA	–	–	–	–
Angelo Moratti	Vice-Chairman	Saras SpA	–	–	–	–
Angelo Mario Moratti	Non-executive director	Saras SpA	–	–	–	–
Gabriele Moratti	Director	Saras SpA	–	–	–	–
Giovanni Moratti	Non-executive director	Saras SpA	–	–	–	–
Gilberto Callera	Independent Director	Saras SpA	–	–	–	–
Andrey Nikolayevich Shishkin	Executive Director	Saras SpA	–	–	–	–
Adriana Cerretelli	Independent Director	Saras SpA	–	–	–	–
Gabriele Previati	Non-executive Director	Saras SpA	12,164	–	12,164	–
Lura Fidanza	Independent Director	Saras SpA	–	–	–	–
Isabelle Harvie-Watt	Independent Director	Saras SpA	–	–	–	–
Dario Scaffardi	Vice-Chairman Exec. and Gen. Gen.	Saras SpA	146,370	–	–	146,370
Giancarla Branda	Chair of the Board of statutory auditors	Saras SpA	–	–	–	–
Giovanni Luigi Camera	Standing auditor	Saras SpA	–	–	–	–
Paola Simonelli	Standing auditor	Saras SpA	–	–	–	–
Pinuccia Mazza	Deputy auditor	Saras SpA	–	–	–	–
Giovanni Fiore	Deputy auditor	Saras SpA	–	–	–	–
Senior personnel with strategic responsibility		Saras SpA	–	–	–	–

7.6 Commitments

At 31 December 2017 and 2016, the Group had made no irrevocable, multi-year commitments to purchase materials or services.

As part of its normal activities, the Parent Company issued sureties totalling EUR 230,227 thousand at 31 December 2017, mainly in favour of subsidiaries and bodies, such as Customs Agencies and the Ministry of Defence.

7.7 Others

No atypical and/or unusual transactions were carried out during the year.

8. Miscellaneous

For information on subsequent events, reference should be made to the relevant section in the Report on Operations.

Pursuant to article 2428 of the Italian Civil Code, the company's other offices are:

General and Administrative Headquarters – Milan

Pursuant to article 149-*duodecies* of the Consob Issuer Regulations, the table below provides details of the fees relating to 2017 paid to the independent auditors for the provision of audit and other non-audit services and the services provided by the network companies.

Types of services	Subject of the service provider	Recipient	Consideration of competence of the 2017 financial year
Audit	EY SpA	Saras SpA	641
Certification services	EY SpA	Saras SpA	2
Net income			**643**

The audit fees also include those related to the specific procedures carried out by the independent auditors on specific issues which arose during the year, and the fees related to the issue of the Non-financial statement report pursuant to Legislative decree no. 254/2016.

9. Publication of the financial statements

In its meeting on 12 March 2018, Saras' Board of Directors authorised publication of the consolidated financial statements. At the same meeting, the Board vested the Chairman and the CEO with separate powers to include in the Report on Operations and/or the notes to the accounts any further detailed information deemed necessary or appropriate to provide a clearer picture of operations to shareholders.

For the Board of Directors
he Chief Executive Officer
Massimo Moratti

REPORTS ON THE 2017 FINANCIAL STATEMENTS

STATEMENT OF SARAS GROUP'S MANAGER IN CHARGE OF FINANCIAL REPORTING

Declaration in respect of the consolidated accounts pursuant to article 81-*ter* of Consob regulation 11971 of 14 May 1999 and subsequent amendments and additions thereto

1. The undersigned, Massimo Moratti, CEO, Dario Scaffardi, Executive Vice President and Franco Balsamo, the Director responsible for drawing up the accounting statements of Saras S.p.A., hereby attest, pursuant also to the provisions of article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:

- to the appropriateness in respect of the type of company and
- the effective application
  of the administrative and accounting procedures for the preparation of the consolidated accounts for the period 1 January 2017 to 31 December 2017.

2. In addition, the undersigned declare that:
2.1 the consolidated accounts to 31 December 2017:

a) were prepared in accordance with the applicable international accounting standards recognised in the European Union pursuant to European Parliament and Council Regulation (EC) 1606/2002 of 19 July 2002

b) accurately represent the figures in the company's accounting records;

c) were drafted in compliance with Consob Resolution 15519 of 27 July 2006, the regulations adopted by Consob with Resolution 11971 of 14 May 1999, as subsequently amended, and with Consob Communication DEM/6064293 of 28 July 2006, and give a true and fair view of the asset and financial position, operating performance and cash flows of Saras S.p.A. and all consolidated companies.

2.2 the Directors' Report includes a reliable analysis of the performance, operating profit and current position of Saras S.p.A. and all companies included in the consolidation together with a description of the main risks and uncertainties to which they are exposed.

This declaration is made pursuant to article 154-*bis*, paragraphs 2 and 5, of Legislative Decree 58 of 24 February 1998.

Milan, 1st March 2018

Signature: delegated authority

signature

(Massimo Moratti)

signature

(Dario Scaffardi)

Signature: director responsible for drawing up the accounting statements

signature

(Franco Balsamo)

EY S.p.A.
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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Saras S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saras S.p.A. Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree 28 February 2005, n. 38.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
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We identified the following key audit matters:

Key Audit Matter	Audit Response
Recoverability of tangible and intangible assets	
Recoverability of tangible and intangible assets is influenced by the volatility of market factors. Management assesses, at least annually, if there are any impairment indicators for tangible and intangible assets with finite useful life, and, if present, performs an impairment test of such assets. Additionally, Management performs, at least annually, an impairment test of intangible assets with indefinite useful life. The estimation of the recoverable amount is a complex evaluation process that depends on external sector variables and is based on assumptions that, by their nature, involve the use of judgment by the directors, with particular reference to industry indicators and market trends, which, for this purpose, are monitored by Management on a continuous basis, with industry data and information, regularly assessed to support the evaluation process. Considering the complexity of the variables assessed by Management in the estimate of the recoverable amount of such assets, and in particular the possible impacts on future cash flows from changes in market conditions, we considered that this area represents a key audit matter. The disclosures related to the recoverability of tangible and intangible assets are included in notes 3.6 "Most significant accounting policies requiring a greater degree of subjectivity", 5.2.1 "Property, plant and equipment" and 5.2.2 "Intangible fixed assets" to the consolidated financial statements.	The audit procedures performed in response to this key audit matter, included, among others, the analysis of the processes and controls implemented by the Group for the assessment of the recoverability of tangible and intangible assets, the assessment of potential impairment indicators and discussion with Management on the economic scenarios considered in developing the Group industrial plans and cash flows forecasts assumed in the impairment test models, also based on independent external sources examined by the Group. We have assessed the estimation models of the recoverable value of tangible and intangible assets adopted by the Group, including our assessment of the consistency of the assumptions with the scenarios reflected in the business plans. Additionally, we analyzed the report of the external valuation expert who supported the Group in preparing one of the impairment test models, assessing the expert's competence, ability and independence. During our analysis, we have also leveraged the support of our experts in evaluation techniques. Lastly, we reviewed the adequacy of the disclosures provided in the notes to the consolidated financial statements in relation to this key area.
Complexity of the regulatory environment and related emerging litigations concerning electricity industry	
The electricity sector is regulated by highly complex rules, which led to the involvement of the subsidiary Sarlux S.r.l. in administrative litigations, whose outcome could influence the assessment of the recoverability of a significant amount of assets included in the consolidated	Our audit procedures in response to this key audit matter included, among others, the examination of the key supporting documentation provided by the Company supporting the evaluation process of the regulatory environment and the outcome from

financial statement line item 5.1.6 "Other Assets".

The Management, with the support of their lawyers, has reflected in the group consolidated financial statements their assessment of the recoverability of these assets.

We considered that this area represents a key audit matter due to the complexity in evaluating the relevant regulatory environment, as well as to the significance and uncertainties of outstanding litigations.

The disclosures related to this matter are included in note 7.1 " Main legal actions pending" to the consolidated financial statements.

pending litigations, also corroborated by the information received from external lawyers, as well as the assessment of Management's conclusion as disclosed in the consolidated financial statements.

Lastly, we reviewed the adequacy of the disclosures provided in the notes to the consolidated financial statements in relation to this key matter.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree 28 February 2005, n. 38, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

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

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Saras S.p.A., in the general meeting held on 28 April 2015, engaged us to perform the audits of the consolidated financial statements for each of the years ending 31 December 2015 to 31 December 2023.
We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Saras S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Group Saras as at 31 December 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Saras Group as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Saras Group as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Saras S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, 26 March 2018

EY S.p.A.
Signed by: Alberto Romeo, Partner

This report has been translated into the English language solely for the convenience of international readers.

STATEMENT OF SARAS S.P.A.'S MANAGER IN CHARGE OF FINANCIAL REPORTING

Declaration in respect of the annual accounts pursuant to article 81-*ter* of Consob regulation 11971 of 14 May 1999 and subsequent amendments and additions thereto

1. The undersigned, Massimo Moratti, CEO, Dario Scaffardi, Executive Vice President and Franco Balsamo, the Director responsible for drawing up the accounting statements of Saras S.p.A., hereby attest, pursuant also to the provisions of article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:

- to the appropriateness in respect of the type of company and
- the effective application

  of the administrative and accounting procedures for the preparation of the annual accounts for the period 1 January 2017 to 31 December 2017.

2. In addition, the undersigned declare that:

2.1 the annual accounts to 31 December 2017:

a) were prepared in accordance with the applicable international accounting standards recognised in the European Union pursuant to European Parliament and Council Regulation (EC) 1606/2002 of 19 July 2002

b) accurately represent the figures in the company's accounting records;

c) were drafted in compliance with Consob Resolution 15519 of 27 July 2006, the regulations adopted by Consob with Resolution 11971 of 14 May 1999, as subsequently amended, and with Consob Communication DEM/6064293 of 28 July 2006, and give a true and fair view of the financial position, operating performance and cash flows of Saras S.p.A. and all consolidated companies

2.2 the Directors' Report includes a reliable analysis of the performance, operating profit and current position of Saras S.p.A. and all companies included in consolidation together with a description of the main risks and uncertainties to which they are exposed.

This declaration is made pursuant to article 154-*bis*, paragraphs 2 and 5, of Legislative Decree 58 of 24 February 1998.

Milan, 1st March 2018

Signature: delegated authority	Signature: director responsible for drawing up the accounting statements
signature	*signature*
(Massimo Moratti)	(Franco Balsamo)

signature

(Dario Scaffardi)

SARAS S.p.A.

Registered office: Sulcitana 195, Km 19 - Sarroch

(CA) Share Capital equal to EUR 54,629,666.67,

fully paid-up.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

pursuant to art. 153 of Legislative Decree no. 58/1998 and art. 2429, paragraph .3 of the Italian Civil Code.

Dear Shareholders,

The Board of Statutory Auditors reports on the actions taken in accordance with the recommendations of the Rules of conduct of the Board of Statutory Auditors of listed companies issued by the governing body of the accounting profession (CNDCEC) and taking into account the indications provided by Consob in Communication no. DEM/1025564 of 6 April 2001, as amended and supplemented by Communication no. DEM/3021582 of 4 April 2003 and then with Communication no. DEM/6031329 of 7 April 20016.

In this Report the Board of Statutory Auditors also refers to the supervisory activities undertaken in compliance with the provisions of Legislative Decree no. 254/2016, disclosures of non-financial and diversity information by the Company.

Specifically, in the context of the tasks assigned to it by the regulations, the Board of Statutory Auditors reports:

a) to have supervised the Company's compliance with regulations, primary and secondary legislation and the articles of association;

b) to have received from the Board of Directors, with the frequency provided for by art. 150 of Legislative Decree no.. 58/1998 and in the manner described by the Articles of Association in art. 22, information on general operating performance, on its expected evolution, as well as on the main transactions impacting the Group's operating performance, financial condition and cash flows undertaken by the Company and its

subsidiaries in the course of the financial year, and to be able to reasonably state, on the basis of the information made available, that the resolution adopted and the actions taken are in accordance with the law and the articles of association and are clearly not imprudent, risky, in potential conflict of interest, in contrast with the resolutions of the shareholders' meeting or such as to compromise the integrity of the company's assets. The above information has been exhaustively dealt with in the Management Report to which reference is made;

c) not to have detected the existence of atypical or unusual activities with Group companies, with third parties or other related parties. With regard to the Explanatory Notes, in paragraph 7.3 of Chapter 7 containing "Other information" - the Board of Directors analytically highlights and illustrates the existence of business dealings involving purchases and sales of products and services and dealings of a financial nature with subsidiaries and other related parties, which have operating effects, clarifying that these transactions took place on terms and conditions that would have been applied in transactions of the same nature between independent parties and that they were carried out only in the Company's interests. Furthermore, during the 2017 financial year, the Company did not purchase or sell any own shares on the Italian Mercato Telematico Azionario (screen-based stock exchange), although the Shareholders' Meetings on 20 April 2017 authorised a buyback programme for ordinary shares in Saras S.p.A., pursuant to article no. 2357 of the Civil Code and article no. 132 of Legislative Decree no. 58/1998, to be implemented within 12 months from the date of the resolution, therefore by 20 April 2018;

d) to have positively evaluated the compliance of the Procedure governing transactions with Related parties adopted by the Company (approved with resolution of 23 January 2007 and modified with the subsequent resolution of 19 March 2014) with the principles in *"Regulation in the matter of transactions with related parties"* adopted by Consob with resolution no. 17221 of 12 March 2010 and its subsequent amendments implementing art. 2391-bis of the Civil Code and those indicated by the Corporate Governance Code; as well as the relative consistency with the indications in Consob Communication no. DEM/10078683 of 24 September 2010, so as to be able to conclude that the procedures adopted by the Board of Directors are appropriate to guarantee a correct and transparent management of transactions with related parties.

With regard to this, the Board of Statutory Auditors highlights that the main tasks of the Related Parties Committee have been assigned to the Control and Risks Committee, a Board committee that meets the independence requirements contemplated by the Corporate Governance Code;

e) to have obtained knowledge and to have supervised, in keeping with the scope of its responsibilities, the adequacy of the organisation - in terms of structure, procedures, competencies and responsibilities - to the size of the Company, to the nature and manner of the pursuit of the Company's purpose;

f) to have supervised over compliance with best practices, through its participation to meetings of the Board of Directors and on the basis of the information received, noting that management choices are inspired by the principle of correct information and reasonableness and that the Directors are aware of the riskiness and effects of the transactions undertaken;

g) to have obtained knowledge and to have supervised, pursuant to art. 149, paragraph 1, letter d) of Legislative Decree no. 58/1998, for the main subsidiaries, the adequacy of the instructions issued by the Company to subsidiaries pursuant to art. 114, paragraph 2 of the same Legislative Decree no. 58/1998 via:

- ✓ the acquisition of information from the managers responsible for the competent company functions;
- ✓ meetings and exchanges of information with the Chairmen of Statutory Boards of Auditors and Sole Auditors where required;
- ✓ meetings with the independent auditors of subsidiaries;

and not to have any specific observation to highlight with regard to this;

h) to have evaluated and supervised the adequacy of the internal control system and of the administrative/accounting system as well as the reliability of the latter to correctly represent the transactions undertaken, via:

- ✓ the review of the report, by the officer responsible for internal control, on the Company's internal control system;
- ✓ the review of the reports by the Internal Audit function and the information supplied by the same on the outcome of the monitoring activities having as object the implementation of corrective action identified from time to time;
- ✓ the acquisition of information from the officers responsible for the respective functions;
- ✓ the review of company documents;
- ✓ the analysis of the work carried out by the independent Audit Firm ;
- ✓ the exchange of information with the boards of statutory auditors of subsidiaries pursuant of art. 151, sections 1 and 2, of Legislative Decree no. 58/1998;

and not to have any specific observation to highlight with regard to this;

i) to have taken note and to have obtained information on the procedural and organisational activities put in place, in implementation of legislation relating to the *"Rules on the administrative liability of entities"* referred to in Legislative Decree no. 231/2001 as amended and supplemented; to have received from the Supervisory Board the minutes of the relative meetings held during the 2017 financial year and to have received by the same guarantees on the absence of facts or situations to be highlighted in this report;

j) to have supervised, pursuant to art. 149, section 1, letter c-bis, of Legislative Decree no. 58/1998, the implementation of the provisions of the Corporate Governance Code of listed companies issued by the Corporate Governance Committee, which the Company has declared to abide by, pursuant to the Board of Directors' resolution of 11 November 2006; to have verified the correct application of the evaluation criteria and procedures adopted by the Board of Directors for assessing the independence of Directors; to have verified the respect of the independence criteria by individual members of the Board of Statutory Auditors, as indicated in art. 3, paragraph 5, of the above Code and to have verified the adoption of a self-assessment procedure on the composition and functioning of the Board and Committees within it;

k) to have learned from the Board of Directors, with confirmation by Ernst & Young S.p.A., that this firm has been assigned, in addition to the task of auditing the financial statement and consolidated financial statements for the years 2015/2023, and the task of limited review of half-yearly reports for the same periods, also tasks related to the auditing of financial statements. These relate to: i) additional and extraordinary services relating to the analysis and impact of the new IFRSs, IFRS 15 and IFRS 9, carried out for the 2017 financial year; ii) services relating to the modification of the alternative performance indicator *(non-GAAP measure)* called *"comparable result" ,* carried out for the 2017 financial year and involving additional activities also for all financial years to 31 December 2023; iii) additional services necessary due to changes to regulations which have introduced new obligations for the auditor and more complex verification activities for each of the financial years from 31 December 2017 to 31 December 2023. For these additional activities, the Auditing Company has asked for an increase in fees of € 70,000.00 (seventy thousand) for those indicated at point i); of € 50,000.00 (fifty thousand) for those indicated at point ii) for 2017 and € 20,000.00 (twenty thousand) for those indicated at the same point ii) for each of the financial years from 31 December 2017 to 31 December 2023; of € 70,000.00 (seventy thousand) for those indicated at point iii) for each of the financial years from 31 December 2017 to 31 December 2023. The proposal for adjustment of the fees for the increase in activities and hours for each of the financial years from 31 December 2017 to 31 December 2023 was discussed by the Board of Directors in the meeting of 12 March 2018 and will be submitted to this Shareholders' Meeting for approval, accompanied by a reasoned proposal by the Board of Statutory Auditors. The Auditing Firm has also carried out a limited review relating to the conformity of non-financial information with current regulations, for which it requires a fee of € 38,000.00 (thirty-eight thousand) for the 2017 and 2018 financial years and of € 35,000 .00 (thirty-five thousand) for the financial years from
2019 to 2023;

l) to have received by the Auditing Firm confirmation of its independence pursuant to art. 17 of Legislative Decree no. 39/2010 and to paragraph 17 of the International Standards on Auditing (ISA Italia) 260;

m) to have issued, during the 2017 financial year, the following favourable opinions:

- ✓ on the failed co-optation of a director following the resignation of Andrey Nikolayevich Shishkin, submitted by letter dated 16 February 2017, and on the postponement of the selection to the next shareholders' meeting;
- ✓ on the increase in annual remuneration awarded to members of Committees, taking into account the increased commitment required from them pursuant to paragraph 3 of art. 2389 of the Civil Code;
- ✓ on the remuneration awarded to the Chairman of the Supervisory Board, Mr Gabriele Previati, in addition to his remuneration as Director pursuant to paragraph 3 of art. 2389 of the Civil Code;
- ✓ on the evaluation of existence of the independence requirements foreseen by the Corporate Governance Code and by Legislative Decree no. 58/1998 regarding independent directors
- ✓ on the approval of the annual operation plan prepared by the officer responsible for the *Internal Audit* function, pursuant to art. 7, paragraph 7.C.1. c) of the Corporate Governance Code;
- ✓ on the evaluation of the correct use of accounting standards and on their uniformity in preparing the consolidated financial statements, carried out by the Control and Risks Committee, pursuant to art. 7, paragraph 7.C.2. a) of the Corporate Governance Code, in consultation with the Responsible Officer;
- ✓ on the assignment of the limited review on the conformity of non-financial information supplied with respect to the provisions of Legislative Decree no. 254 of 30 December 2016 to the independent auditors;
- ✓ on the assignment of additional and extraordinary tasks relating to the analysis and impact of the new IFRSs, IFRS 15 and IFRS 9, for the financial year ended 31

December 2017;

- ✓ on the assignment to the same Company responsible for auditing the financial statements of tasks requiring additional and extraordinary services relating to the modification of the alternative performance indicator (non-GAAP measure) called "comparable result" for the financial year ended 31 December 2017;

n) to have verified the correct application of the evaluation criteria and procedures adopted by the Board of Directors for assessing the independence of directors, pursuant to art. 3, paragraph 3.C.5. of the Corporate Governance Code;

o) to have not received any complaints or reports pursuant to art. 2408 of the Civil Code;

p) to have received analytical information regarding the impairment tests carried out pursuant to IAS 39 in 2016 to confirm the value of significant assets reported in subsidiaries' financial statements;

q) to have received analytical information relating to the merit of transactions with significant impacts on operating performance, financial condition and cash flows, including via subsidiaries. Of such transactions, reviewed and approved by the Board of Directors, the following are indicated:

- ✓ issue of a convertible bond underwritten on 28 December 2017 for a period of 5 years with a value of EUR 200 million;
- ✓ early repayment of a loan provided by a syndicate of banks under a loan agreement dated 6 March 2015 and amended on 26 October 2016. This loan was repaid on 30 December 2017, following the issue of the convertible bond;

r) to have held meetings, pursuant to art. 150, paragraph 3, of Legislative Decree no. 58/1998, with representatives of the Auditing Firm. There were no events or critical issues to be reported;

s) to have received the draft financial statements as at 31 December 2017, prepared according to IFRSs, and the management report, within the timeframe indicated in art. 2429 of the Civil Code, as well as the Sustainability Report containing the consolidated Disclosures of non-financial information and diversity information, by the deadline stipulated in art. 5 of Legislative Decree no. 254/16;

t) to have received from the Auditing Company, on 26 March 2018, the reports pursuant to art. 14 and art. 19, paragraph 3, of Legislative Decree no. 39/2010 respectively for the separate financial statements and consolidated financial statements for the year ended 31 December 2017. These reports indicate that the separate financial statements and the consolidated financial statements provide a true and fair view of the company's financial position, operating result and cashflows for the financial year ended 31 December 2017, in accordance with the International Financial Reporting Standards adopted by the European Union and the provisions issued in the implementation of art. 9 of Legislative Decree no. 38/2005; and that the management report and the information in the Corporate Governance and Share Ownership Report indicated in paragraph 4 of art. 123-bis of Legislative Decree no. 58/1998 are consistent with the consolidated financial statements;

u) to have received, on 26 March 2018, from the auditing company, Ernst & Young S.p.A., the report required by art. 11 of EU Regulation no. 537/2014;

v) to have received, on 26 March 2018, from the Auditing Firm, Ernst & Young S.p.A., the limited review report on the conformity of non-financial information supplied in accordance with the provisions of Legislative Decree no. 254 of 30 December 2016, which shows that there are no indications to suggest that the disclosures of non-financial information *"has not been prepared, in all material aspects, in accordance with the requirements in articles 3 and 4 of the cited Decree and GRI Standards".*

Disclosures of non-financial information

The Board of Statutory Auditors, in the context of ordinary activities carried out in the implementation of current regulations, has supervised the Company's compliance with the provisions of Legislative Decree no. 254/2016, on the disclosures of non-financial and diversity information.

8

The Company has prepared the consolidated non-financial disclosures in the wider form of the *"Sustainability Report*", placing it in a separate document and not in a section of the management report.

The above disclosures cover environmental and social aspects as well as aspects relating to personnel, human rights, the fight against active and passive corruption, relevant when taking into account Company activities and characteristics, in a manner that allows understanding of the Company's activities, its progress, its results and its impact, in a manner consistent with the provisions in art. 3 of Legislative Decree no. 254/2016.

Explicit mention is made in the disclosures of the reporting standard adopted, the "Global Reporting Initiative Sustainability Reporting Standards" (GRI Standard).

In the above disclosures, approved by the Board of Directors in the meeting of 12 March 2018 and made available to the auditors on the same date, the Board of Statutory Auditors has performed a summary review of systems and processes with the objective of ensuring compliance with the law and best practices. Essentially the object of the review was the relevant risk matrix, the modes of reporting of the information provided and the correspondence of the same to the truth, as well as the coherence of the same reporting process with the provisions of the decree.

In consideration of the activities carried out and in the light of the conclusions reached by the Auditing Company in the specific report, the Board of Statutory Auditors can attest to the adequacy of the organisation in view of the social/environmental strategic objectives that the Company has set, as well as the consistency of the disclosures with the provisions of Legislative Decree no. 254/2016.

Conclusions

To carry out the supervisory activities described above, the Board of Statutory Auditors met 12 times during the 2017 financial year; it has attended one Shareholders' Meeting, six meetings of the Board of Directors, three meetings of the Remuneration and Appointments Committee and five meetings of the Risk Control Committee.

The elements of knowledge necessary to carry out the activities pertaining to the Board of Statutory Auditors have also been obtained, in addition to the participation to the above-

mentioned meetings, through direct investigations, as well as via the gathering of information from officers responsible of the functions of interest. What has come to light in the reviews and the participation to meetings indicates that the decisions made by the Directors comply with the regulations and the articles of association and best practices, and are consistent and compatible with the company's size and assets.

In the course of its supervisory activities and on the basis of the information received by the Company, the Board of Directors has not identified any omissions and/or reprehensible facts and/or irregularities or in any case significant facts such as to require notification to the regulatory bodies or mention in this report.

On the basis of the supervisory activities carried out during the financial year, and from the analysis of draft financial statements presented, considering that on 26 March 2018 the Company released its own reports without disclosures, the Board of Statutory Auditors has not identified any impediments to the approval of the financial statements to 31 December 2017 and to the proposals for deliberations formulated by the Board of Directors.

Finally, it is recalled that the Board of Statutory Auditors' mandatory three-year period - like the one for the Board of Directors - expires with the approval of the financial statements being examined by the Shareholders' Meeting. Therefore the Statutory Auditors, thanking the Shareholders for the confidence in its members, invite the Shareholders to take any necessary action.

27 March 2018

The Board of Statutory Auditors

Giancarla Branda - Chairman (signature)

Giovanni Luigi Camera - Auditor (signature)

Paola Simonelli - Auditor (signature)

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LIST OF OFFICES HELD BY THE BOARD OF STATUTORY AUDITORS IN COMPANIES REFERRED TO IN BOOK V OF THE ITALIAN CIVIL CODE ON 12 MARCH 2018

Giancarla Branda

COMPANY NAME	POSITION HELD
Sara Assicurazioni SpA	Standing Auditor and member of the Supervisory Body
Sara Vita SpA	Standing Auditor and member of the Supervisory Body
RFI – Rete Ferroviaria Italiana S.p.A.	Standing Auditor and member of the Supervisory Body
ACI Consult S.p.A. in ordinary liquidation	Statutory Auditor
ACI Progei SpA	Standing Auditor and Standing Auditor of Consorzio Studi e Ricerche Fiscali
Consorzio Studi e Ricerche Fiscali	Statutory Auditor
ACI Informatica S.p.A.	Deputy Auditor
Italcertifier S.p.A.	Deputy Auditor
Banca Network Investimenti in compulsory administrative liquidation	Member of the Monitoring Committee

Mr. Giovanni Luigi Camera

COMPANY NAME	POSITION HELD
ASPREMARE Ass.ne per la Prevenzione e la Terapia delle Malattie Renali – ONLUS	Auditor
Fondazione Cardinale Federico Borromeo	President of the College of Auditors
M-I Stadio Srl	Statutory Auditor
Massimo Moratti SapA	Statutory Auditor
Mondini Cavi SpA	Chairman Board of Statutory Auditors
Sardeolica Srl	Sole Statutory Auditor
Sarlux Srl	Statutory Auditor
Shine Sim SpA	Chairman Board of Statutory Auditors

Ms Paola Simonelli

COMPANY NAME	POSITION HELD
Bruker Italia Srl	Chairman of Board of Statutory Auditors
E-Group Italy SpA in liquidation	Chairman of Board of Statutory Auditors
Cooperativa per il Restauro SCARL	Legal Auditor
Actavis Italy SpA – a sole shareholder company	Statutory Auditor
Aliserio Srl	Statutory Auditor
Biotecnica Instruments SpA	Statutory Auditor
Chef Express SpA	Statutory Auditor
Bi-Qem S.p.A.	Statutory Auditor
Bi-Qem Specialties S.p.A.	Statutory Auditor
Cremonini SpA	Statutory Auditor
Emme Esse SpA in liquidation	Statutory Auditor
Errevi SpA in liquidation	Statutory Auditor
Fondo Pensione di Previdenza Bipiemme	Statutory Auditor
Fratelli Gotta Srl	Statutory Auditor
GE.SE.SO Gestione Servizi Sociali Srl	Statutory Auditor
Intersider Acciai Spa in liquidation	Statutory Auditor
MARR S.p.A.	Statutory Auditor
Perani & Partners S.p.A.	Statutory Auditor
Posa SpA	Statutory Auditor
Pusterla 1880 SpA	Statutory Auditor
Sarlux Srl	Statutory Auditor
UBS Fiduciaria SpA	Statutory Auditor

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS OF SARAS SPA

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Saras S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Saras S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree 28 February 2005, n. 38.

Basis for Opinion

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

Key Audit Matters

There are not key audit matters to be communicated in this report.

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

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree 28 February 2005, n. 38 and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

EY S.p.A.
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In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

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

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Saras S.p.A., in the general meeting held on 28 April 2015, engaged us to perform the audits of the financial statements for each of the years ending 31 December 2015 to 31 December 2023.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Saras S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Saras S.p.A. as at 31 December 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Saras S.p.A. as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Saras S.p.A. as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, 26 March 2018

EY S.p.A.
Signed by: Alberto Romeo, Partner

This report has been translated into the English language solely for the convenience of international readers.

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