Cassa di Compensazione e Garanzia S.p.A.

Financial statements
for the year ended 31 December 2018

Cassa di Compensazione e Garanzia S.p.A.
Fully paid-up share capital € 33,000,000.00. - Registered in the Companies' Register of Rome - Tax and VAT number 04289511000 - Economic and Administrative Index no. 752154 | Company subject to the management and coordination of London Stock Exchange Group Holdings Italia S.p.A. Sole member Borsa Italiana S.p.A.

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1. Financial highlights

(Amounts in thousands of Euro)

Economic indicators	Year 2018	Year 2017
Revenue	92,762	90,911
Ebitda	66,893	62,339
Ebitda margin	*72.1%*	*68.6%*
Ebit	70,452	67,700
Ebit margin	*75.9%*	*74.5%*
Net profit	47,103	45,286
(as % of Revenue)	*50.8%*	*49.8%*
ROE	28.3%	26.2%
Dividends and similar income	44,550	43,010
Asset indicators	Year 2018	Year 2017
Shareholders' Equity	164,881	167,894
Net Fin. Position (- debt / + cash)	156,922	232,190
Efficiency indicators	Year 2018	Year 2017
Average number of employees	62.5	58.0
Revenue/employees	1,484	1,567
Ebit/employees	1,127	1,167

2. Report on operations

The financial statements of Cassa Compensazione e Garanzia S.p.A. for the year ended 31 December 2018, show a positive net result of € 47,102,789 (€ 45,285,966 at 31 December 2017).

The past year was characterised by CC&G's contribution to consolidating the financial services provided by market infrastructures and managing information flows and arrangements with members. In addition, from the perspective of continued improvements to the risk management solutions offered, various projects were undertaken aimed at further increasing efficiency in the margining models utilised. These changes will initially affect the bond section, with increased benefits arising from integrated margining at portfolio level.

The main events characterising 2018 were on the one hand, the peak in volatility recorded in financial markets in the second half of May – linked to political uncertainty in Italy - which raised the differential on Italian 10-year Government Bonds in relation to their German counterparts up to 329 bps; on the other, the completion of the European Central Bank's acquisition programme of 2.6 trillion bonds (Quantitative Easing), launched four years ago to drive growth in the Eurozone under crisis.

CC&G adequately managed these volatility peaks by introducing corrective measures defined by the risk management framework, and with the aim of maintaining the adequacy of available guarantees, by limiting possible procyclical effects to a minimum.

The conservative approach adopted by CC&G and the measures undertaken ensure the continued resilience of the CCP guarantee system. The solid nature of the risk management framework allowed CC&G to avoid any criticality, without taking on excessive risks.

In August 2018, Consob and the Bank of Italy issued the Measure dated 13 August 2018 containing the regulation of central counterparties, central securities depositories and centralised management (i.e. Single Measure on Post-Trading). The Single Measure on Post-Trading, which came into force on 31 August 2018, replaces the regulations contained in the previous Consob and Bank of Italy Measure dated 22 February 2008 concerning the governance of centralised management services, settlement services, guarantee schemes and related management companies, which had become incompatible with EMIR, CSDR and second-level delegated regulations.

With regard to the United Kingdom's exit process from the European Union (Brexit), in order to continue providing its services in the United Kingdom even in the case of a Hard Brexit scenario, CC&G, in conjunction with the Bank of Italy and Consob, has initiated the procedure for recognition as a non-UK CCP with the Bank of England. A similar procedure was also undertaken applying for the designation of the settlement system, so as to benefit from the protection provided in terms of settlement finality regulations in the United Kingdom.

As far as services are concerned, functional adjustments have been made during the year for the purpose of more efficiently managing the activities carried out. As regards initiatives for the outsourcing of central counterparty services, CC&G signed a contract with the Austrian Central Counterparty (CCP.a) to provide the technological service of the Clearing System in the form of the "Software as a Service" (SaaS) model, in compliance with EMIR standards, replacing the current system provided by London Stock Exchange. The adjustments to the CC&G Clearing System in terms of the Austrian functional requirements began immediately after the contract was signed and will continue through to the third quarter of 2019, when the service will start on a "hosted" model basis.

During the first six months of 2018, CC&G also provided support to the start-up of the Central Counterparty in Morocco in respect of the Casablanca Stock Exchange Client. The support service included consulting, training and capacity building so as to provide the Client with a regulatory framework compliant with EMIR regulations, and all the information regarding the internal management of a Central Counterparty.

In the same context, during the second part of 2018, CC&G signed a contract to provide support to the start-up of a Romanian Central Counterparty at the Bucharest Bursa de Valori. The contract referred to identifying the equities that the Romanian Central Counterparty should activate to create an operational framework that complies with EMIR regulations, and structured consulting to compile the Business Case in favour of the customer's stakeholders.

During 2019, CC&G will be extending its guarantee services to cover the new trading products envisaged within the IDEM market. More specifically, the range of dividend futures offered will be extended, and long-term (up to 5 years) options will be introduced on single shares.

CC&G confirms its commitment to promoting a secure and stable market infrastructure based on its offering of innovative and solid clearing and risk management solutions and to implementing a business model that meets its customers' needs.

2.1 Events of the year ended 31 December 2018

Central counterparty services

Participants in the clearing and guarantee system as of 31 December 2018 totalled 149 (151 at 31 December 2017), represented for the most part by Banks (88) and Investment firms (53), 5 private companies, 1 State-controlled Company, 1 Stock Exchange Company and finally 1 CCP.

Of these, 83 were clearing members, of which 67 were Banks, 14 Investment firms, 1 a State-controlled Company and 1 CCP. The degree of openness to the European market of clearing members is shown by the share of foreign Banks (17 EU) amounting to 25.37% of the overall total of Banks, and of EU Investment firms (10) amounting to 71.43%.

Derivatives sections (IDEM Equity, IDEX and AGREX)

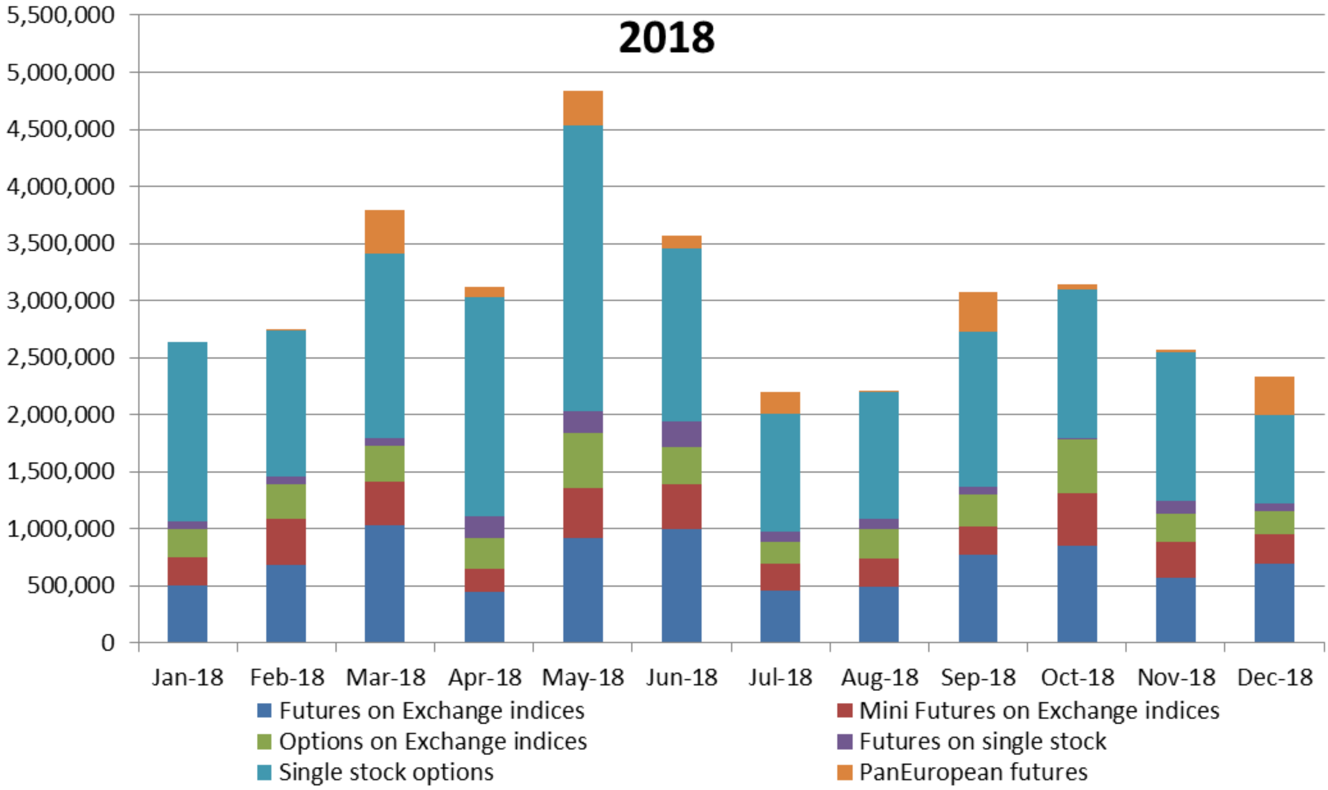
The number of cleared contracts on the IDEM Equity Market at 31 December 2018 was 36,244,434, compared to 34,153,672 at 31 December 2017 (+6.1%); the daily average was 143,827 contracts compared to 134,995 contracts at 31 December 2017.

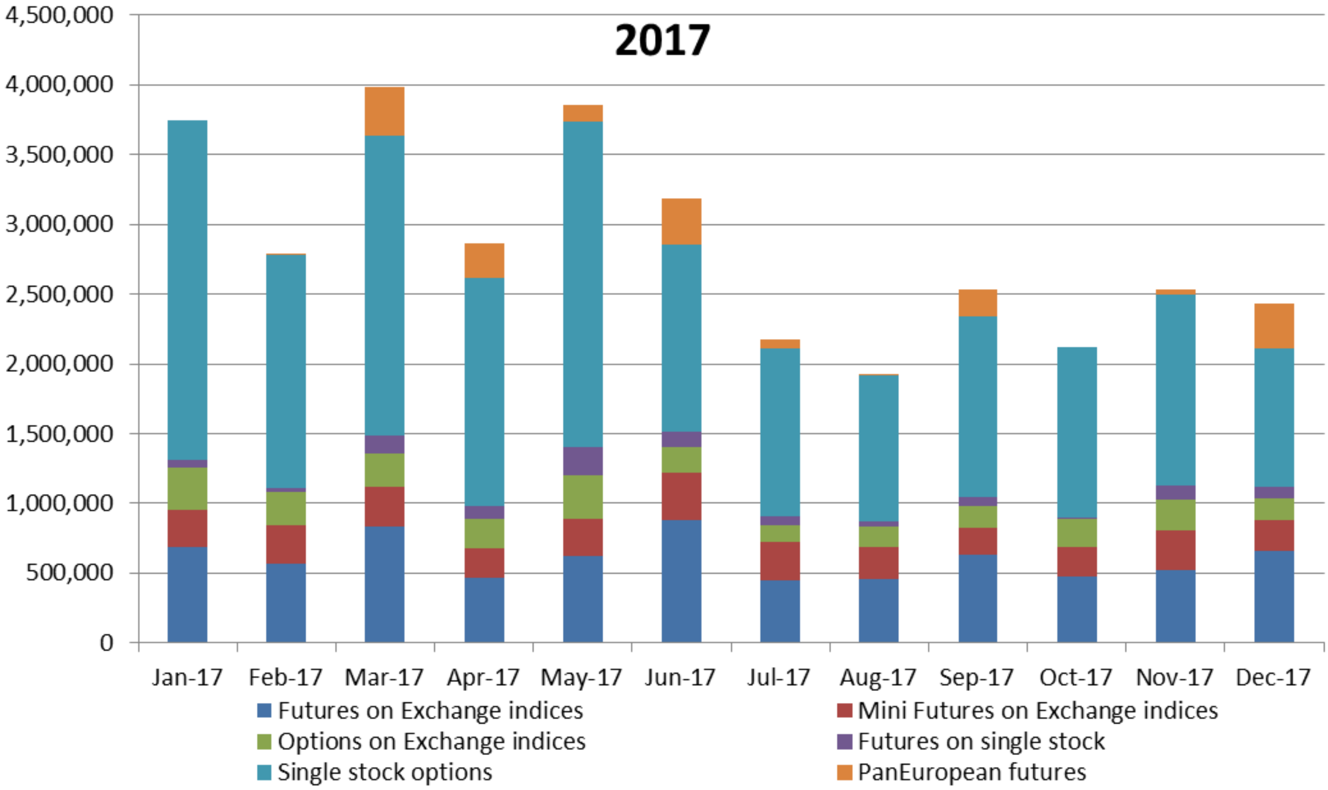
There were increases in almost all instruments compared to the same period last year:

- stock market index options, which went from 2.5 million in 2017 to 3.6 million contracts in 2018 (+44.8%);
- futures on individual shares, which went from 1.0 million in 2017 to 1.3 million contracts in 2018 (+27.7%);
- mini-futures on stock market indices went from 3.0 million contracts in 2017 to 3.8 million contracts in 2018 (+26.2%);
- stock market index futures, which went from 7.3 million in 2017 to 8.4 million contracts in 2018 (+15.5%);
- pan-European futures, which went from 1.7 million in 2017 to 1.9 million contracts in 2018 (+10.3%).

There was a decrease however in options on individual shares, with volumes falling from 18.7 million contracts in 2017 to 17.3 million contracts in 2018 (-7.5%).

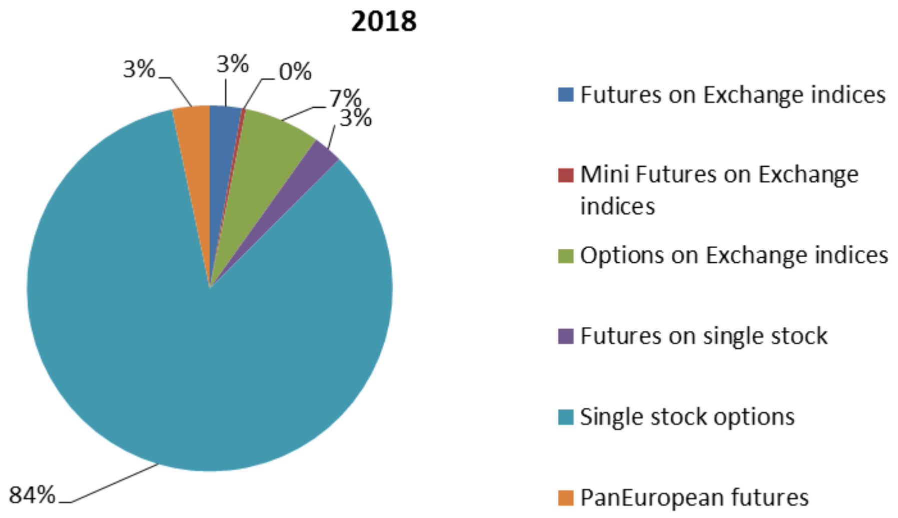
NUMBER OF CONTRACTS
(single counted)

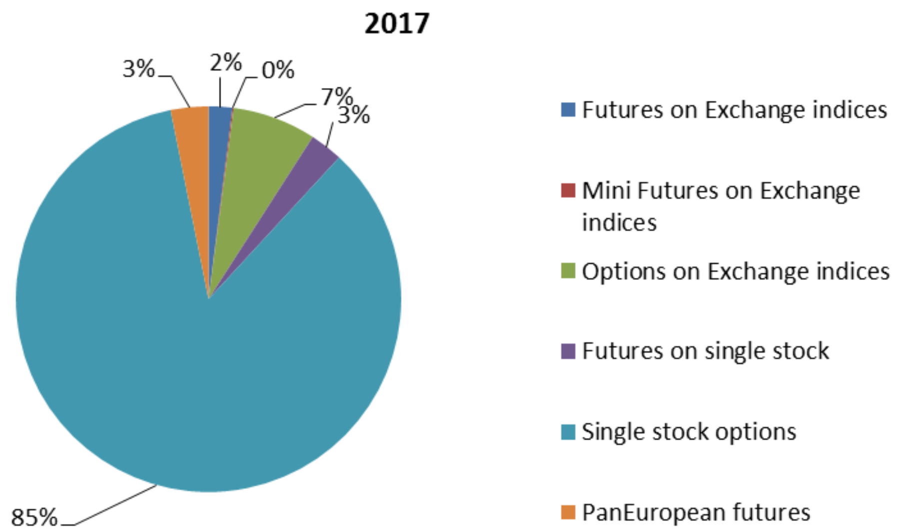




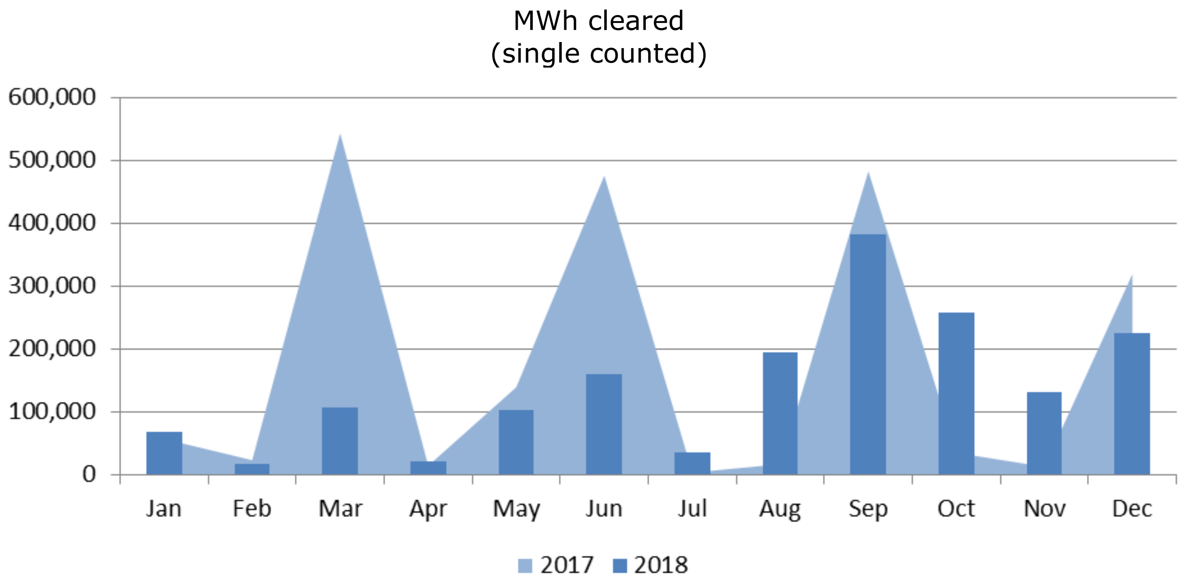
Open positions at 31 December 2018 (i.e. open interest) totalled 5,614,647, 20.6% higher than at 31 December 2017 (4,656,478).

OPEN POSITIONS
(% number of contracts)





The volumes of the IDEX derivatives section at 31 December 2018 amounted to 1,708,570 MWh cleared, 19.6% lower compared to the same period last year, with 2,124,986 MWh cleared.



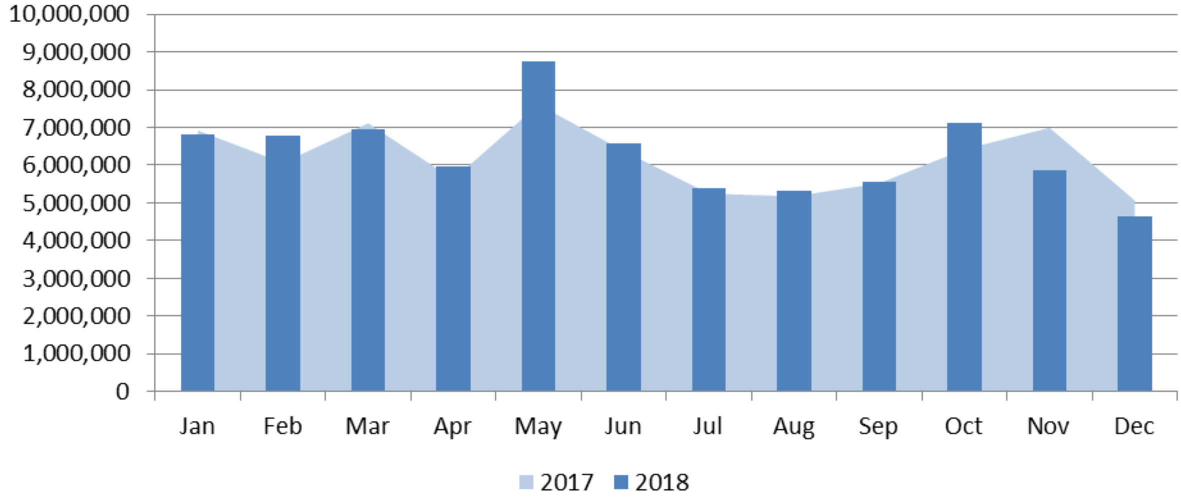
No volumes were recorded for the period ended 31 December 2018 in the AGREX derivative sector.

As at 31 December 2018, there were 32 clearing members in the Derivative Equity section (in line with the previous period), of which 23 were General and 9 Individuals; there were 5 in the energy derivatives section (6 at 31 December 2017), all General, whereas there were 2 in the agricultural commodities derivatives section (3 at 31 December 2017), all General. The IDEM, IDEX and AGREX markets are guaranteed in these sections.

Equity section

On the equity markets of Borsa Italiana, 75,667,085 contracts were covered by guarantees, with 2.1% increase compared to the same period of the previous year (74,111,680 contracts); the daily average was 300,266 contracts compared to 292,932 contracts the previous year.

NUMBER OF CONTRACTS
(single counted)

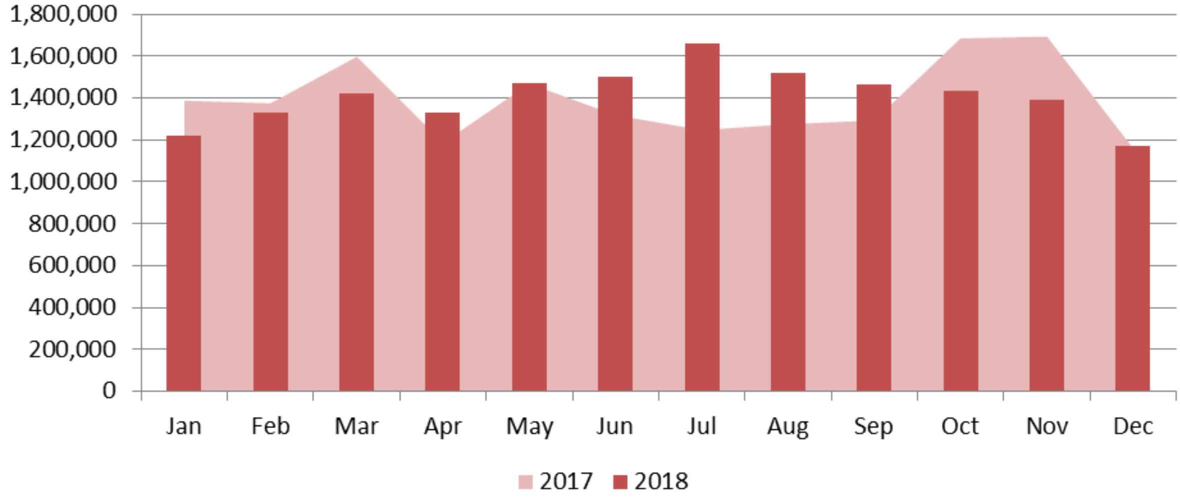


At 31 December 2018, there were 30 clearing members in the Equity section (31 as of 31 December 2017), of which 16 were general and 14 individual. The MTA, ETF plus, MIV and BIT Equity MTF markets are guaranteed in this section.

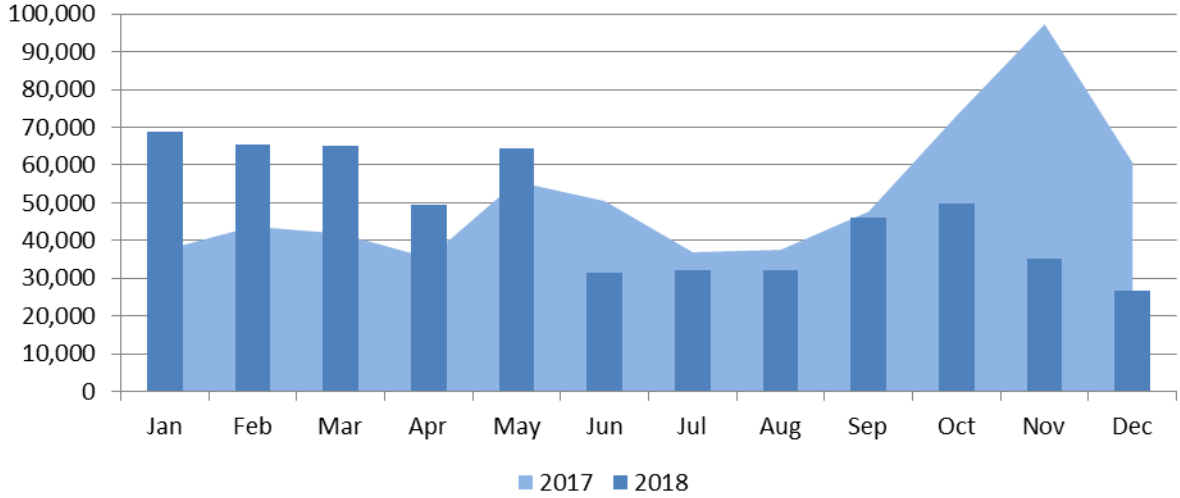
Bond section

The value of guaranteed contracts, traded on the wholesale bond section was higher than the preceding year for Repos (nominal € 16,914 billion compared to € 16,689 billion, with an increase of +1.3%), and lower for cash transactions (nominal € 566.0 billion compared to € 617.6 billion, -8.4%).

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

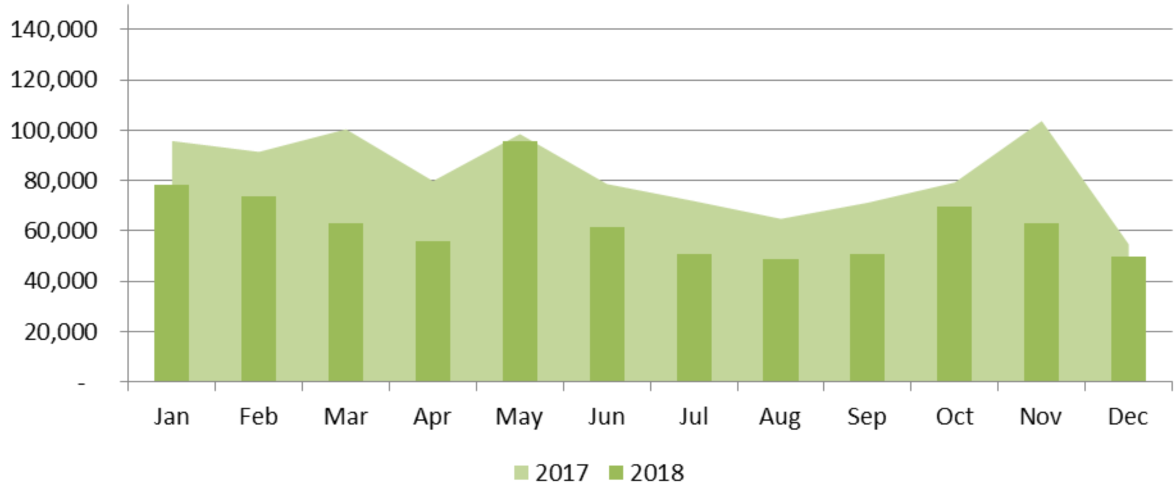


NOMINAL VALUE OF CONTRACTS
Wholesale markets
Cash contracts
(million Euro)

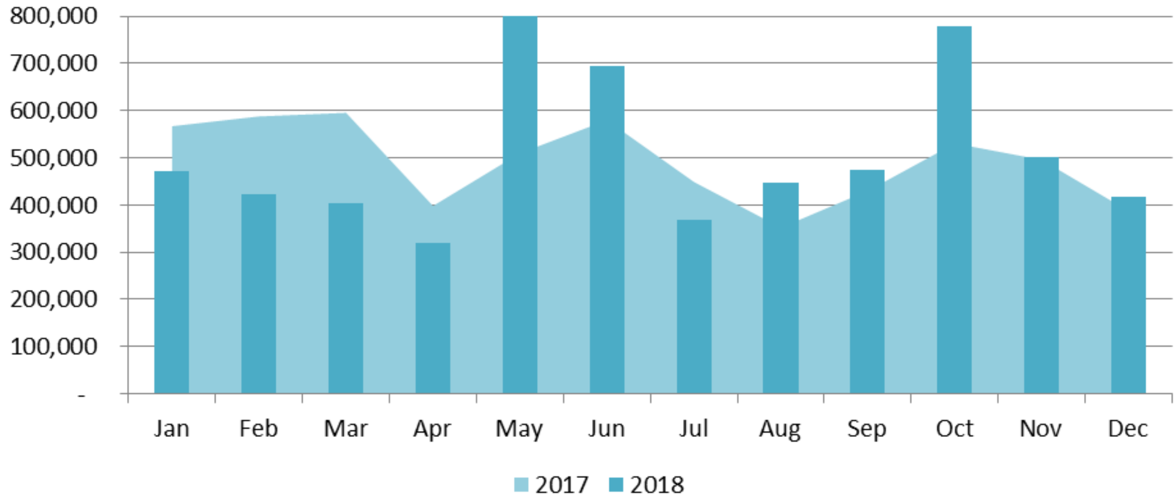


As far as the retail bond section is concerned, the international section (ICSD) was lower compared to the same period of the previous year (760,198 contracts compared to 989,345 contracts with a decrease of -23.2% on the previous year), whereas the domestic sector was higher compared to the same period in the previous year (6,257,248 contracts compared to 5,882,454 contracts with an increase of +6.4% on the previous year).

NUMBER OF CONTRACTS
International section retail markets
(single counted)



NUMBER OF CONTRACTS
Domestic section retail markets
(double counted)



There were 63 clearing members in the bond section as of 31 December 2018 (67 as of 31 December 2017), of which 15 were general and 48 individual. In this section the MTS Cash, MTS Repo, Nex Brokertech and Repo e-MID markets are guaranteed for the wholesale segment, and the MOT, Euro TLX and Hi MTF markets for the retail segment.

There were 30 clearing members in the ICSD bond section as of 31 December 2018 (31 as of 31 December 2017), of which 13 were general and 17 individual. In this section, the Euro MOT, Extra MOT and Hi MTF markets are guaranteed.

X-Com section

There were 10 clearing members in the X-COM section at 31 December 2018 (8 at 31 December 2017), of which 3 were general and 7 individual.

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

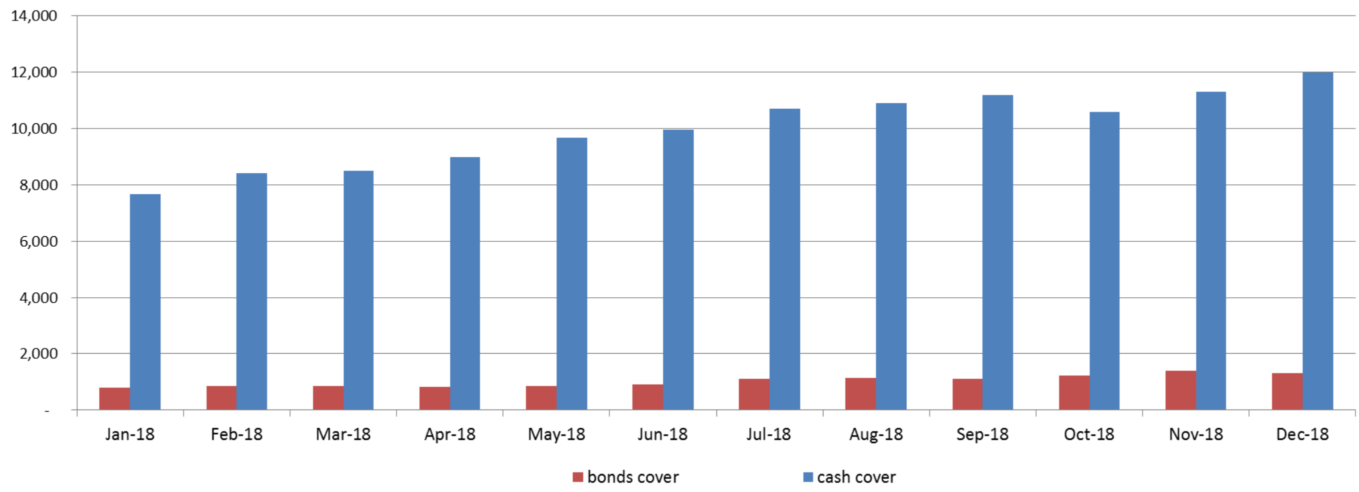
Risk management

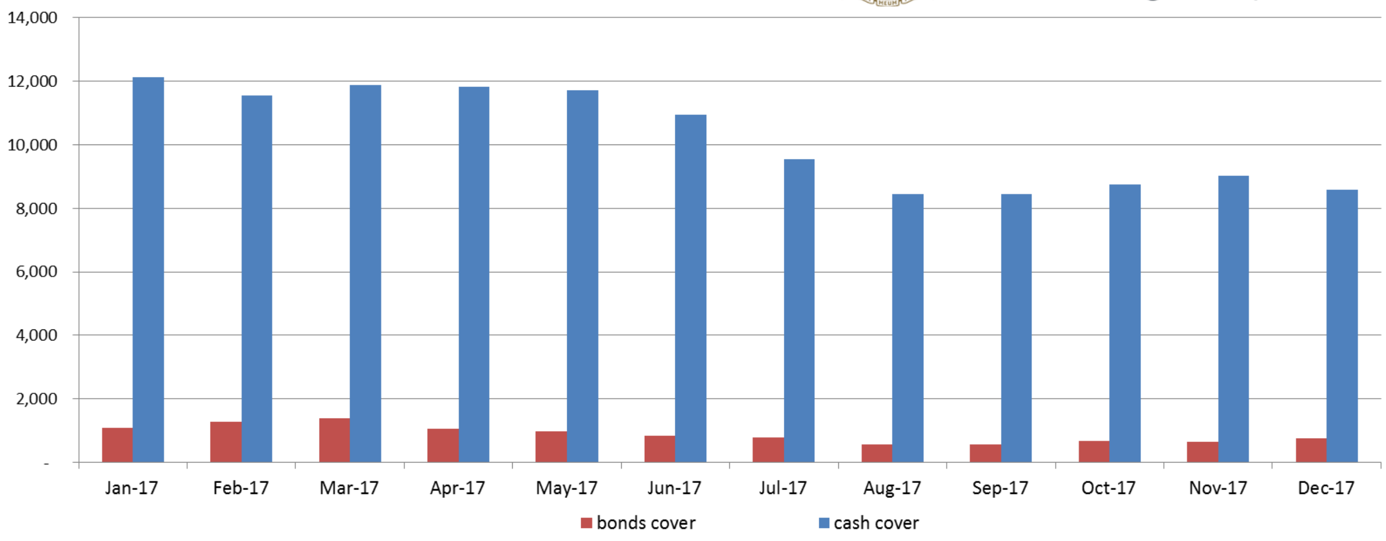
During the period under review, 149 new instruments were listed on the Equity section, including 120 ETFs, 11 shares on MTA, 13 shares on GEM (formerly MTA International), 4 warrants and 1 convertible bond. In the Equity Derivative segment, 4 new dividend futures were listed on individual shares, 1 future on shares and 2 options.

The average daily amount of the initial margins went from € 8.5 billion in January 2018 to € 13.3 billion in December 2018 (the month in which the maximum value of the average occurred). Compared to the daily average of the last financial year (€ 11.1 billion), a 0.6% decrease was recorded at € 11.0 billion. The guarantees deposited to cover initial margins were, on average for the period in question, 91% in cash and 9% in Government Bonds.

INITIAL MARGINS AVERAGE

(million Euro)





The monitoring of counterparty risk, carried out by verifying members' exposures on an ongoing basis, resulted in 3,788 requests for intraday additional margins during the year, for a total of € 74.5 billion.

The default funds at 31 December 2018 amounted to:

- € 800 million (€ 1,300 million at the end of the previous year, -38%) for the equity markets (Cash and Derivatives),
- € 4,600 million for the Bond section (€ 3,800 million in the previous year, +21%),
- € 2.3 million for the Energy Derivatives section (€ 11 million in the previous year, -79%),
- € 0.10 million for the Agricultural Commodities Derivatives segment (€ 0.10 million in the previous year).

Said amounts have been adjusted several times in the course of the financial year on the basis of the stress test results.

The amount of the Default Fund for the MIC at 31 December 2018 amounts to € 4.3 million (€ 122 million at the closing of the preceding financial year, -96%).

New services and functionalities introduced in the financial year

Default Funds

On 28 May 2018, changes were introduced to the methods for communicating Default Fund variations to Members. These communications were previously done via Market Notices published on the CC&G site and sent via e-mail to Members' contacts. This is now done via a new intraday Report and Data File sent on the BCS and ICWS. Notification for these intraday Reports and Data Files is done on BCS via pop-up messages and on ICWS via a sliding banner. This innovation reduces the manual work done by the Operations Area and consequently the risk of errors, whilst at the same time improving the quality of the service provided to Members.

BCS enhancements

In order to achieve a more accurate Open Interest and at the same time, benefit members when executing certain clearing functions, as from 30 July 2018, the holding of Futures positions on Third Party accounts will be changed from net to gross on the Clearing System, similarly to Options on Third Party accounts. Consequently, the use of the Open/Close Change and Rectify functions was extended on BCS to also include contracts and Futures positions on Third Party accounts. With regard to the close at 20:30 for Futures and Mini Futures trading on the FSTE MIB Index, Rectify operations on Futures positions were provided free of charge up until 13:00 on the day after the contracts' trading day. In addition, the limit for executions via the BCS for clearing functions on cleared contracts was extended from T+2 to T+5.

As from 3 December 2018, the BCS added other important functions to improve the international give-up function and management of separate accounts.

Finally, also with effect from the same date, the implementation process was completed on the Real Time Margin Tool module, by adding the Bond Section to the asset classes for selection that were already available (Equity and Derivatives) for General Member monitoring of Trading Clients.

ICSD Bond section

As from December 2018, the process for the payment of coupon compensations on in-fail positions on the ICSD Bond Section was computerised, implemented via a direct debit on Euroclear and Clearstream accounts, with consequent increased efficiency and a reduction in the time required for coupon compensation settlements.

2.2 Economic results and assets and liabilities situation

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

(Amounts in thousands of Euro)

	31/12/2018	31/12/2017
Net interest income	**43,091**	**40,115**
Net commission income	44,485	43,404
Dividends and similar income	5	5
Net income from financial assets/liabilities	97	186
Intermediation margin	**87,678**	**83,710**
Administrative expenses	(22,965)	(22,904)
Other operating income	2,180	1,534
Gross operating margin (EBITDA)	**66,893**	**62,339**
Adjustments/recoveries of value due to impairment	-	(52)
Amortizations and depreciations	(1,622)	(1,975)
Operating income	**65,271**	**60,313**
Net financial income	5,181	7,387
Net operating margin (EBIT)	**70,452**	**67,700**
Income taxes	(23,349)	(22,414)
Profit (Loss) for the year	**47,103**	**45,286**

Cassa di Compensazione e Garanzia S.p.A. closed the financial year as at 31 December 2018 with a net result of € 47.1 million (€ 45.3 million at 31 December 2017). The intermediation margin was € 87.7 million, divided between interest income for € 43.1 million, net commission income for € 44.5 million and a net result on financial liabilities for € 0.1 million. As of 31 December 2017 the intermediation margin was € 83.7 million. The decrease in the interest margin is attributable to the specific conditions in European financial markets, which were impacted by the investment strategies for cash deposited as guarantees by members operating in the context of interest rates that were mostly negative.

Administrative expenses totalled € 23.0 million. Amortizations and depreciations amounted to € 1.6 million whilst the other sundry operating revenues amounted to approximately € 2.2 million. As a consequence of the above, the net operating margin (Ebit) stood at € 70.5 million. Taxes for the financial year, inclusive of the provision for prepaid taxes, amounted to € 23.3 million.

The Balance Sheet shows a total assets that went from € 134.1 billion as of 31 December 2017 to € 179.2 billion as of 31 December 2018. In particular, the following assets items are noted, with a counter entry on the liabilities side: financial assets/liabilities held for trading for CCP assets for an amount of € 5.4 billion (€ 6.5 billion as of 31 December 2017) and assets/liabilities measured at amortised cost for € 168.2/€ 173.6 billion (€ 122.0/€ 127.5 billion in the preceding financial year).

Item 30 of the Balance Sheet shows the financial instruments classified as financial assets measured at fair value impacting on comprehensive income, and relate to investments in secured assets of margins and default funds and residually, the Company's own funds for € 5.6 billion.

€ 11.1 billion is recorded under receivables for receivables from banks, € 4.3 billion for receivables from financial companies and € 152.8 billion for other receivables. € 0.5 billion is recorded under due from banks, € 6.9 billion for due from financial companies and € 166.3 billion for other payables.

The Company's assets, amounting to € 164.9 million, includes € 33.0 million in share capital, € 6.6 million in the legal reserve, € 78.2 million in other reserves (including, inter alia, the "skin-in-the-game" required by EMIR, the extraordinary reserve, reserves from the evaluation of financial assets available for sale, the FTA and the other distributable reserves) and € 47.1 million from the operating profit.

The cash flow records a net absorbed liquidity of € 82.9 million (at 31 December 2017 generated liquidity was € 42.4 million).

2.3 Information relating to personnel and the environment

As of 31 December 2018, the organisational structure was made up of a total of 65 (60 as of 31 December 2017) employees, 7 of whom are Directors, 19 middle managers and 39 employees, as well as 13 seconded resources and 1 seconded to another company in the Group. The average age is 40.9 years and 35% of the work force is represented by women. The average length of service is 10.0 years.

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

2.4 Research and development

During the current year, the IT segment, with the specialist support from IBM Italy, successfully completed a POC (Proof of Concept), by adopting Cognitive/Artificial Intelligence paradigms on the Power AI (Augmented Intelligence) platform: specifically, AI (Augmented Intelligence) technologies were introduced and applied to identifying potential anomalies in the input domain used by the treasury application.

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

2.5 Evaluation of risks

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

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

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

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

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

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

The modular MoVE software, managed by the Risk Policy Office, automatically conducts an internal validation of the risk models used and possible hypothetical scenarios required by Regulators, via a web-based interface.

Internal control system

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

Internal controls are arranged on the following levels:

Level 1:

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

Level 2:

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

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

Level 3:

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

External Risk Committee

In compliance with EMIR provisions, the external Risk Committee, made up from representatives of clearing members, independent members of the Board of Directors and customer negotiators, meets periodically. The members of the Committee have been appointed by CC&G's Board of Directors on the basis of objective non discriminatory criteria and are subject to periodical rotation.

The External Risk Committee is a consultative body of the Board. This Committee expresses non binding opinions on all measures that may affect the Company's risk management in its capacity as central counterparty and prepares a report on activities carried out on a yearly basis (see paragraph 2.6).

Competition

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

Technology

In order to guarantee a rapid and effective response to market demands and those of its members, the Company has constantly kept a close eye on internally maintaining technological skills. The use of secure, stable, and high-performance technology, enabling high levels of accessibility and processing capacity of information, is the determining element in making it possible to meet the increasing operational demand from the market; this is aimed at avoiding interruptions or delays when introducing new services or products. The combination of the two above-mentioned key factors enables CC&G to effectively compete in a scenario characterised by rapid technological changes, improvements in standards and the introduction and evolution of new products and services.

During the year, CC&G continued with the alignment of its core processes to sector standards, by optimising management of the processes themselves. More specifically, the use of appropriate tools has been introduced to verify the quality of the software developed (Code Review) and vulnerability control systems on the network (SwasCan); these two measures made it possible to increase efficiency, and combined with the existing monitoring and control system, on the one hand, prevented the occurrence of unexpected events, and on the other, supported a prompt reaction to any critical aspects encountered.

The requirement of comparison and ongoing pursuit of improvement are the underlying aspects whereby CC&G designs and implements its business strategies, based on compliance with shared guidelines and international standards.

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

During 2018, the BSI confirmed the ISO 22301 certification, which sets the requirements for a Business Continuity management system. ISO 27001 certification was also confirmed regarding information security. CC&G has also confirmed its adoption of the international ISO 31000 guidelines for risk analysis, further promoting internal collaboration, the adoption and consolidation of a project-based approach in accordance with reference standards. The above certifications received double accreditation by the ANAB (ANSI-ASQ National Accreditation Board) and the UKAS (United Kingdom Accreditation Service) and are therefore valid worldwide.

The membership procedure for CERTFin (Bank of Italy and ABI) was completed, to deal with cyber issues together with other Financial Institutions, with membership confirmed as from May 2018.

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

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

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

A Security Operations Centre (SOC) was also created to support the monitoring of IT infrastructure and Security systems, with the introduction of new Artificial Intelligence based systems, with the ability to identify any intrusion attempts or attacks on all systems in our new architecture, in real time.

With the SOC, the management of all security issues related to IT infrastructure was therefore centralised (network, systems and applications), as well as all proactive services aimed at improving CC&G protection levels (security assessments, vulnerability assessments, early warning, security awareness, etc.). Based on Configuration Management, the SOC also guarantees consistent alignment with firewalling rules and all internal or external policy formulations and changes, filtering or authorisation to move data traffic between an external and internal source (or vice versa). The team analyses the logs originating from the consoles or tools used and then draws up a weekly executive summary, which is made available for analysis and discussion at Top Management meetings.

The SOC team is obliged to report any new vulnerability discovered to CISO, so that this can be promptly reported to CertFin using the security alert service. This is then analysed with other members of the latter to identify possible countermeasures that can mitigate or hopefully eliminate the impact of this vulnerability.

The SOC conducts a periodic Vulnerability Assessment either directly or using specialist companies, aiming to identify the vulnerabilities that are already known on systems and the services installed on the former, as well as a Penetration Test to identify and exploit the known vulnerabilities or those that are as yet unknown on the systems, services and web applications installed on them so as to more effectively highlight the threat each of these represent and estimate their impact.

The infrastructure portion of computer architecture was also involved in the preliminary work related to international projects, and in this regard four central systems were strengthened, replacing the Storage systems; new carriers were identified for the high-speed connection between the Rome/Milan/Vienna sections; new logic partitions were created, which were segregated from those of CC&G; specific data production synchronisation models were created on the respective CBU and Disaster Recovery machines in compliance with EMIR regulations on the issues of Business Continuity and D.R. and the new European legislation that will shortly be coming into force (GDPR).

The IT area has continued to implement a more efficient formulation regarding the increasing requirements regarding its Corporate Governance system and also referring to the different Management Systems implemented, the specific international Certifications obtained, as well as all the required support activities (e.g. Process mapping, Bia): starting from processes, the five traditional stages making up IT governance are managed (strategy and planning, plan implementation, performance management and monitoring). Considering IT governance from an organisational perspective on the other hand, the strategic dimension is assessed, defining governance principles, objectives, areas of competencies within the organisation and Group and, also the operational dimension, defining the areas where the IT team should respond by implementing the related internal support activities to properly manage the entire IT universe.

Employees

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

2.6 Governance and legal information

(a) General information

Name and registered office

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

Date of incorporation and date of termination of the company

The Company was incorporated on 31 March 1992 and will end on 31 December 2100.

Companies' Register

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

Legal form

The company is a joint stock company duly incorporated and existing under the laws of Italy, endowed with a management and control system based on the presence of a Board of Directors and a Board of Statutory Auditors.

The Company is subject to the management and coordination activities of London Stock Exchange Group Holdings Italia S.p.A.

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

*(a)	Corporate bodies*

Board of Directors

The Board of Directors was appointed by the ordinary Shareholders' Meeting of 28 April 2017 and will remain in office for the financial years ending at 31 December 2017 to 31 December 2019. At 31 December 2018, the Board was made up of the following directors:

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

Up until 30 November 2018, the Board of Directors had confirmed its member Paolo Cittadini in the office of CEO, who then resigned with effect from the above date.

Following the resignation of Paolo Cittadini from the office of CEO and General Manager, the Board in interim assigned the Vice Chairman with the powers of CEO, and appointed a new General Manager with effect from 1 December 2018. The Board of Directors did not co-opt any director to replace Paolo Cittadini as at 31 December 2018.

General management

Marco Polito[2]	General Manager

Board of Statutory Auditors

The Board of Statutory Auditors was appointed by the ordinary shareholders' meeting of 18 April 2018 for three (consecutive) financial years, which will expire with the Shareholders' Meeting convened for the approval of the financial statements as of 31 December 2020 and is made up as follows:

Roberto Ruozi	Chairman
Fabio Artoni	Statutory Auditor
Mauro Coazzoli	Statutory Auditor
Nicola Frangi	Acting Auditor
Lorenzo Pozza	Acting Auditor

[1] Subsequent to the resignation of Paolo Cittadini from the office of CEO and General Manager, with effect from 1 December 2018, the Board of Directors in interim assigned the Vice Chairman Raffaele Jerusalmi with the powers attributable to the CEO.

[2] Appointed by the Board of Directors meeting on 15 October 2018, effective as from 1 December 2018.

Risk Committee

The Risk Committee, established in compliance with EU Regulation No 648/2012 (EMIR Rules) is made up of 8 members, of which there are:

(a) two independent Directors of CC&G

(b) three representatives of the clearing members

(c) three representatives of the clients

Composition of the Risk Committee:

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

Remuneration Committee

The Remunerations Committee, established in compliance with Article 7 of EU Delegated Regulation No 153/2013 and Article 20 of the company's By-laws, is made up of 3 members, of which:

(a) the Vice Chairman of the Board of Directors

(b) two non-executive independent directors

Composition of the Remunerations Committee:

Raffaele Jerusalmi

Claudio Grego

Vincenzo Pontolillo

Disciplinary Board

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

Mario Notari	Chairman
Marco Lamandini	
Giuseppe Lusignani	

Board of Arbitrators

The Board of Arbitrators, established in accordance with the provisions of the General conditions Part I is made up of:

Alberto Mazzoni	Chairman
Emanuele Rimini	
Carlo A. Favero	

(b) Corporate Governance

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

External auditing is assigned to an audit firm (EY S.p.A.) pursuant to the law.

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

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

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

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

- exercises other powers and carries out the duties required from it by the law and By-laws.

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

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

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

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

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

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

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

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

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

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

In particular, the Committee expresses its opinion on:

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

The Committee may also submit proposals to the Board of Directors on matters relating to the management of CC&G risk.

The committee’s advisory and proposal-making activities do not extend to decisions relating to the current operations of the Company.

The Committee prepares an annual report, containing information on activities carried out and their assessments of the Company’s risk management. This report is attached to the annual report on the organisational structure and the management of risk addressed to the supervisory Authorities.

The **Board of Statutory Auditors** is the body responsible for oversight of compliance with the provisions of the law and By-laws, compliance with the principles of correct management and, in particular the adequacy of the internal control system and the organisational, administrative and accounting structures and their proper functioning. The Board of Statutory Auditors is also required to make a reasoned proposal to the Shareholders' Meeting when it appoints the independent auditors.

The Board of Statutory Auditors also carries out the functions of Internal Control and Legal Audit Committee, as provided for by Article 7 of EU Delegated Regulation No 153 of 2013.

The members of the Board of Statutory Auditors are appointed for a term of three financial years and may be re-elected.

Each of the members of the Board of Statutory Auditors must possess the requirements of integrity, professionalism and independence, provided for by the law and By-Laws.

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

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

The Company is authorised to carry out clearing services in the capacity of central counterparty pursuant to (EU) Regulation No 648/2012.

In compliance with Article 4 of the By-laws, the Company has the following corporate purpose:

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

The Company may also carry out any promotional and marketing activities for its services and products, as well as any activities related or conducive to that provided for in the preceding paragraphs.

In particular, the Company may provide, manage and market, technological services and advisory support mainly relating to clearing and guarantee and risk management activities.

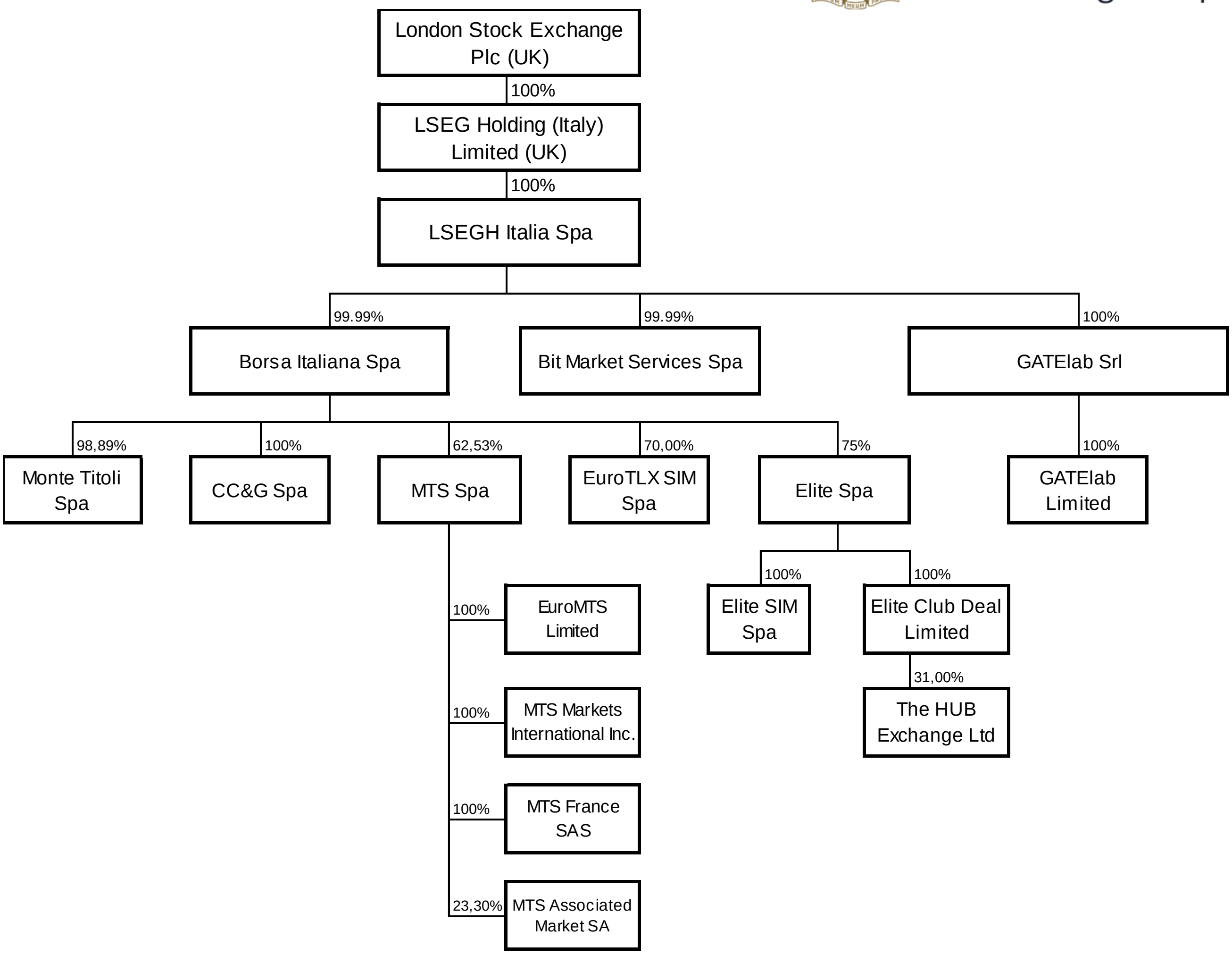
(c) Share capital

The share capital amounts to € 33,000,000.00, fully paid up. It is divided into 5,500 ordinary shares with a nominal value of € 6,000.00 each.

(d) Structure of the Group

Pursuant to Article 2497 et seq. of the Italian Civil Code, at 31 December 2018, Cassa di Compensazione e Garanzia S.p.A. is 100% controlled by Borsa Italiana S.p.A. and is subject to the management and coordination activities of the London Stock Exchange Group Holdings Italia S.p.A., in turn controlled by the London Stock Exchange Group Plc.

Cassa di Compensazione e Garanzia S.p.A. holds no equity interests.



2.7 Relationships with related parties

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

2.8 Significant events after the close of the financial year

Following the crisis that arose in the Venezuelan Government, the United States Treasury Department financial intelligence and control agency OFAC - Office of Foreign Assets Control imposed sanctions on Venezuela, whilst also issuing certain exemptions in this regard.

To benefit from these exemptions, some foreign central depositories requested that their members, including CC&G, provide appropriate declarations to process transactions.

In the scope of its activities as central counterparty, the Company adopted the necessary measures to minimise the impact of the relevant costs referring to operations guaranteed by CC&G, and involving a US person that would not benefit from the aforementioned exemptions.

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

Dear Shareholders,

We invite you to approve the proposed financial statements for the year ending 31 December 2018 (Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in the Shareholders' Equity, Financial Statement and Explanatory Notes), in their entirety and their individual entries and propose to allocate the net operating profit of € 47,102,789.38 as follows:

- to Shareholders, as a dividend equal to € 8,100 for 5,500 ordinary shares with a nominal value of € 6,000 each representing the share capital, for a total of € 44,550,000;

- the residual profit of € 2,552,789.38 to Reserves, as a stable allocation over time of the portion of the profit to be allocated to the reserve.

Furthermore, we invite you to propose the following resolutions to the Shareholders' Meeting:

- based on the calculation of the Regulatory Capital requirements - provided by (EU) Regulation 648/2012 (EMIR) - shown in Section D - Other Information, to amend the restricted reserve pursuant to Article 45, paragraph 4 of EU Regulation 648/2012 ("skin-in-the-game") - which, following the approval of the Shareholders' Meeting of 18 April 2018 amounted to € 19,404,893 - increasing it to the new calculated value (as per EU Regulation 648/2012) of € 21,649,375;

The dividend will be payable from 3 May 2019.

Rome, 22 March 2019

for the Board of Directors
The Chairman
Renato Tarantola

3. Financial statements for the year ending 31 December 2018

Balance Sheet

(Amounts in Euro)

ASSETS

	Assets	31/12/2018	31/12/2017
10.	Cash and cash equivalents	193	283
20.	Financial assets measured at fair value impacting on income statement	5,428,188,424	6,514,670,906
	a) financial assets held for trading (for CCP activities)	*5,417,825,243*	*6,500,198,659*
	c) other financial assets with mandatory measurement at fair value (for CCP activities)	*10,363,181*	*14,472,247*
30.	Financial assets measured at fair value impacting on comprehensive income	5,616,062,583	5,660,549,370
40.	Financial assets measured at amortised cost	168,181,952,293	121,964,890,839
	a) receivables from banks	*11,073,310,105*	*8,834,690,994*
	a) receivables from financial companies	*4,334,816,824*	*2,785,921,037*
	c) receivables from customers	-	-
	d) other receivables	*152,773,825,364*	*110,344,278,808*
80.	Tangible assets	857,633	486,459
90.	Intangible assets	2,393,859	2,291,155
100.	Tax assets	3,075,685	835,474
	a) current	-	*835,474*
	b) prepaid	*3,075,685*	-
120.	Other assets	1,148,548	4,280,085
	TOTAL ASSETS	**179,233,679,218**	**134,148,004,571**

LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS

	Liabilities and shareholders' equity items	31/12/2018	31/12/2017
10.	Financial liabilities measured at amortised cost	173,636,764,589	127,457,357,998
	a) payables	173,636,764,589	127,457,357,998
20.	Financial liabilities held for trading (for CCP activities)	5,417,825,243	6,500,198,659
30.	Financial liabilities measured at fair value (for CCP activities)	5,813,447	13,993,369
60.	Tax liabilities	153,531	345,582
	a) current	*153,531*	-
	b) deferred	-	*345,582*
80.	Other liabilities	7,122,636	7,054,397
90.	Employee severance indemnity provision	1,119,084	1,160,559
110.	Share capital	33,000,000	33,000,000
150.	Reserves	90,305,248	88,029,283
160.	Valuation reserves	(5,527,349)	1,578,758
170.	Profit (Loss) for the year	47,102,789	45,285,966
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**179,233,679,218**	**134,148,004,571**

Income Statement

(Amounts in Euro)

	Items	31/12/2018	31/12/2017
10.	Interest receivable and similar revenues	2,524,278,152	985,291,833
20.	Interest expenses and similar charges	(2,481,186,753)	(945,177,013)
30.	**NET INTEREST INCOME**	**43,091,399**	**40,114,820**
40.	Commissions receivable	45,880,935	44,749,532
50.	Commissions payable	(1,395,894)	(1,345,742)
60.	**NET COMMISSION INCOME**	**44,485,041**	**43,403,790**
70.	Dividends and similar income	4,711	5,332
80.	Net income from trading activities	-	-
100.	Profit (Loss) from sale or repurchase of:	5,180,864	7,387,341
	b) financial assets measured at fair value impacting on comprehensive income	5,180,864	7,387,341
110.	Net income from other financial assets and liabilities measured at fair value impacting the income statement	97,315	185,659
	b) other financial assets with mandatory measurement at fair value	*97,315*	*185,659*
120.	**INTERMEDIATION MARGIN**	**92,859,330**	**91,096,942**
130.	Net adjustments/write-backs due to credit risk of:	-	(51,900)
	a) financial assets measured at amortised cost	-	*(51,900)*
150.	**NET FINANCIAL INCOME**	**92,859,330**	**91,045,042**
160.	Administrative expenses:	(22,965,093)	(22,904,337)
	a) personnel expenses	*(9,283,958)*	*(8,748,700)*
	b) other administrative expenses	*(13,681,135)*	*(14,155,637)*
180.	Net adjustments/write-backs on tangible assets	(211,715)	(244,051)
190.	Net adjustments/write-backs on intangible assets	(1,410,571)	(1,730,471)
200.	Other operating expenses and income	2,179,995	1,533,811
210.	**OPERATING COSTS**	**(22,407,384)**	**(23,345,048)**
260.	**PROFIT (LOSS) OF CURRENT OPERATIONS BEFORE TAX**	**70,451,946**	**67,699,994**
270.	Income taxes for the financial year on current operations	(23,349,157)	(22,414,028)
280.	**PROFIT (LOSS) OF CURRENT OPERATIONS NET OF TAXES**	**47,102,789**	**45,285,966**
300.	**PROFIT (LOSS) FOR THE YEAR**	**47,102,789**	**45,285,966**

Statement of comprehensive income

(Amounts in Euro)

	Items	31/12/2018	31/12/2017
10.	**Profit (Loss) for the year**	**47,102,789**	**45,285,966**
	Other income components, net of taxes without reversal to income statement	**117,440**	**33,458**
70.	Defined benefit plans	117,440	33,458
	Other income components, net of taxes with reversal to income statement	**(7,223,547)**	**(3,061,212)**
140.	Financial assets (other than equities) measured at fair value impacting on comprehensive income	(7,223,547)	(3,061,212)
170.	**Total other income components net of taxes**	**(7,106,107)**	**(3,027,754)**
180.	**Comprehensive income (Item 10+170)**	**39,996,682**	**42,258,212**

Statement of changes in Shareholders' Equity

STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY AT 31 December 2018

(Amounts in Euro)

	Balances at 31/12/2017	Change to the opening balances	Balances at 01/01/2018	Allocation of the result of the previous financial year		Changes occurred in the financial year						Comprehensive income for the year 2018	Shareholders' Equity at 31/12/2018
							Transactions on Shareholders' Equity						
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution	Changes in capital instrument	Other changes		
Share capital	33,000,000		33,000,000										33,000,000
Share premium	-		-										-
Reserves:	-		-										-
- legal	6,600,000		6,600,000										6,600,000
- other reserves	79,276,175		79,276,175	2,275,965									81,552,140
- profits/losses brought forward	-		-										-
- fund for the purchase of shares of parent company	2,082,568		2,082,568										2,082,568
- FTA reserve	70,540		70,540										70,540
Valuation reserves	1,578,758		1,578,758									(7,106,107)	(5,527,349)
Capital instruments	-		-										-
Own shares	-		-										-
Profit (Loss) for the year	45,285,966		45,285,966	(2,275,965)	(43,010,001)							47,102,789	47,102,789
Shareholders' Equity	167,894,007	-	167,894,007	-	(43,010,001)	-	-	-	-	-	-	39,996,682	164,880,688

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

(Amounts in Euro)

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

Cash Flow Statement

DIRECT METHOD

(Amounts in Euro)

A. OPERATING ACTIVITIES	Amount	
	31/12/18	**31/12/17**
1. Management	**25,357,793**	**(26,948,519)**
- interest income received (+)	(88,102,557)	(121,678,635)
- interest expenses paid (-)	101,557,616	96,289,734
- dividends and similar income (+)	4,711	5,332
- net commission income (+/-)	44,714,784	43,535,990
- personnel expenses (-)	(8,991,834)	(8,546,292)
- other expenses (-)	(9,813,527)	(7,916,122)
- other revenues (+)	3,590,566	1,533,811
- taxes (-)	(17,601,966)	(30,172,337)
2. Liquidity generated / absorbed by financial assets	**(3,806,978,088)**	**6,582,263,403**
- financial assets held for trading for CCP activities	-	-
- financial assets with mandatory measurement at fair value for CCP activities	(4,261,356)	234,991
- financial assets measured at fair value impacting on comprehensive income	65,269,143	2,704,614,256
- financial assets measured at amortised cost	(3,868,877,201)	3,873,406,209
- other assets	891,326	4,007,947
3. Liquidity generated / absorbed by financial liabilities	**3,743,780,761**	**(6,451,786,731)**
- financial liabilities measured at amortised cost	3,749,677,423	(6,448,464,493)
- financial liabilities held for trading for CCP activities	-	-
- financial liabilities measured at fair value for CCP activities	190,500	-
- other liabilities	(6,087,162)	(3,322,238)
Net liquidity generated/absorbed by operating activity	**(37,839,534)**	**103,528,153**
- INVESTMENT ACTIVITY		
1. Cash generated from	-	-
- sales of tangible assets	-	-
- sales of intangible assets	-	-
2. Liquidity absorbed by	**(2,096,164)**	**(1,058,550)**
- purchases of tangible assets	(582,889)	(355,561)
- purchases of intangible assets	(1,513,275)	(702,989)
Net liquidity generated/absorbed by investment activity	**(2,096,164)**	**(1,058,550)**
B. FUNDING ACTIVITY		
- distribution of dividends and other	(43,010,001)	(60,071,506)
Net liquidity generated/absorbed by the funding activity	**(43,010,001)**	**(60,071,506)**
CASH FLOW GENERATED/ABSORBED DURING THE YEAR	**(82,945,699)**	**42,398,097**

RECONCILIATION

	Amount	
	31/12/18	**31/12/17**
Cash and cash equivalents at beginning of the year	111,839,650	69,441,552
Total net liquidity generated/absorbed during the year	(82,945,699)	42,398,098
Cash and cash equivalents at closing of the year	28,893,951	111,839,650

Explanatory Notes

Part A - Accounting policies

A.1 - General part

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

Section 1 - Statement of compliance with international accounting standards

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

These Company financial statements are therefore prepared according to the accounting standards issued by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC and SIC) and validated by the European Commission, as provided for by EC Regulation No 1606 of 19 July 2002 as implemented in Italy by Legislative Decree No 38 of 28 February 2005, up to the date to approve these financial statements. In preparing these financial statements the same accounting standards have been used, where applicable, as those adopted for preparing the financial statements of the financial year ended at 31 December 2017. The financial statements have been prepared in accordance with the going concern assumption.

Section 2 - General principles

The financial statements for the year ending 31 December 2018, prepared in Euro, consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in the Shareholders' Equity, the Cash Flow Statement[1], Explanatory Notes and the relevant comparative information; they are also accompanied by the Report on Operations prepared by the Directors.

The financial statements were derived from the tables proposed by the instructions contained in "The financial statements of IFRS intermediaries other than bank intermediaries” document issued by the Bank of Italy on 22 December 2017, suitably adjusted to take account of specific activities carried out by the Company. To ensure greater compliance with the Bank of Italy's instructions, some tables in the Explanatory Notes were modified according to these tables, and some values were reclassified to take into account the different exposure[2]. The comparison with the previous year was maintained, as per the regulations.

The financial statements were prepared clearly and are a true and accurate representation of the equity situation, the financial situation and the economic result. The Explanatory Notes to the financial statements provide an exhaustive explanation aiming to outline a clear, truthful and accurate presentation of the tables for the financial statements.

The application of IAS/IFRS standards was done by also referencing the “conceptual framework for financial reporting”, with specific reference to the basic principle that substance should prevail over form, and the concept of the relevance and significance of information.

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

1 The cash flow statement for the financial year and the previous year was prepared using the direct method, which indicates the main categories of gross cash receipts and payments. The direct method provides useful information in the estimate of future cash flows.

2 In the Balance Sheet, the Income Statement, the Statement of Overall Profitability and the Explanatory Notes no items were provided that do not present amounts for the financial year to which they relate nor for the preceding financial year.

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

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

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

Main risks and uncertainties

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

Having regard to those recommendations and with reference to the precondition of business continuity, it is pointed out that the financial statements as at 31 December 2018 were prepared based on the perspective of business continuity, there being no reasons to consider that the Company will not continue operating in the foreseeable future. In fact, no symptoms were identified in the equity and financial structures and in the operational performance that may lead to uncertainties on this issue. Information on risks and uncertainties to which the Company is exposed are described in the context of this report.

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

New accounting standards

In preparing these financial statements the same accounting standards have been used, where applicable, as those adopted for preparing the financial statements of the financial year ended at 31 December 2017.

New standards applicable from the financial year ended 31 December 2018

A listing and brief summary is provided below of the new standards and interpretations issued by the IASB and endorsed by the European Union for mandatory adoption as from the financial statements for the financial periods starting first January 2018.

Document title	Issue date	Date of entry in force	Date of approval	EU Registration and date of publication
IFRS 15 – Revenue from client's contracts	May-14 (Note 1)	1° January 2018	22-Sep-16	(UE) 2016/1905 29-Oct-16
IFRS 9 – Financial Instruments	Jul-14	1° January 2018	22-Nov-16	(UE) 2016/2067 29-Nov-16
IFRS 15 Clarification - Revenues for client's contracts	Apr-16	1° January 2018	31-Oct-17	(UE) 2017/1987 09-Nov-17
Joint application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts – (Amendments to IFRS 4)	Sep-16	1° January 2018	03-Nov-17	(UE) 2017/1988 09-Nov-17
IFRS improvements – cycle 2014-2016 (Changes to IFRS 1 and to IAS 28)	Dec-16	1° January 2018	07-Feb-18	(UE) 2018/182 08-Feb-18
Classification and evaluation of operations with share-based paymentsdelle operazioni con pagamenti basati su azioni (Changes to IFRS 2)	Jun-16	1° January 2018	26-Feb-18	(UE) 2018/289 27-Feb-18
Changes in the destination of real estate investments (Chamges to IAS 40)	Dec-16	1° January 2018	14-Mar-18	(UE) 2018/400 15-Mar-18
IFRIC 22 Interpretation – Foreign currency transactions and advances	Dec-16	1° January 2018	28-Mar-18	(UE) 2018/519 03-Apr-18

(Nota 1) Amendment which modified the effective date of IFRS 15 has been published in September 2015.

New aspects and changes to accounting standards and interpretations

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes subsequent to the adoption of these new accounting standards are detailed below.

Various other amendments and interpretations were applicable for the first time in 2018, but these did not impact the financial statements. The Company did not proceed with the early adoption of any standards, interpretations or amendments issued, but not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenues and the relative interpretations and with a few exceptions, is applicable to all revenue derived from contracts with customers.

IFRS 15 sets a five-step model for recognising revenue deriving from contracts with customers, and requires that revenue is recorded at an amount reflecting the amount that the entity expects to receive in exchange for the transfer of goods or services to a customer.

More specifically, IFRS 15 establishes the following steps:

- Step 1: Identify the contract with the customer;
- Step 2: Identify all the individual performance obligations within the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the price to the performance obligations in the contract;
- Step 5: Recognise revenue as the performance obligations are fulfilled.

IFRS 15 requires that entities applying this, conduct an analysis by taking into consideration all the facts and circumstances that are relevant in applying each step of the model to contracts with their customers. The standard also specifies that the incremental costs to obtain a contract and the directly related costs to fulfilling the contract should also be recognised.

Cassa di Compensazione e Garanzia S.p.a. adopted IFRS 15 by using the adjusted retrospective method, with the date of initial application the 1 January 2018.

The cumulative effect of the initial IFRS 15 application is recognised on the date of first application as an adjustment to the opening balance for undistributed profits. The comparative information was therefore not reformulated and continues to be reported according to IAS 11, IAS 18 and the relative interpretations.

No impact emerged for the asset and economic position, resulting from the introduction of the standard for recording revenues for the aforementioned assets.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments.

The Company applied IFRS 9 prospectively, with the date of first application the 1 January 2018. The Company did not reformulate the comparative information that continues to be reported as per IAS 39. There were no differences recorded from the adoption of IFRS 9.

Reconciliation between the accounting schedules published in the 2017 Financial Statements and IFRS 9 accounting schedules (Bank of Italy Directive dated 22 December 2017) at 1 January 2018 (reclassification of IAS 39 balances)

The Company reported the 2017 comparative balances for assets and liabilities in the balance sheet, on the traditional basis as shown below:

Financial statements at 31 December 2017	Financial statements at 31 December 2018
item 20 - Financial assets held for trading (for CCP activities)	**item 20** - Financial assets measured at fair value impacting on income statement; sub-item a) financial assets held for trading (for CCP activities)
item 30 - Financial assets measured at fair value (for CCP activities)	**item 20** - Financial assets measured at fair value impacting on the income statement; sub-item c) other financial assets with mandatory measurement at fair value (for CCP activities)
item 40 - Financial assets available for sale	**item 30** - Financial assets measured at fair value impacting on comprehensive income
item 60 - Receivables	**item 40** - Financial assets measured at amortised cost
item 10 - Payables	**item 10** - Financial liabilities measured at amortised cost
item 30 - Financial liabilities held for trading (for CCP activities)	**item 20** - Financial liabilities held for trading (for CCP activities)
item 40 - Financial liabilities measured at fair value (for CCP activities)	**item 30** - Financial liabilities measured at fair value (for CCP activities)

The table below shows the reconciliation between items in the schedules published in the Financial Statements at 31 December 2017 and defined by the Bank of Italy Directive of 22 December 2017, relating to the application of IFRS 9.

IFRS 9		IAS 39									
ASSETS		10 - Cash and cash equivalents	20 - Financial assets held for trading (for CCP activities)	30 - Financial assets measured at fair value (for CCP activities)	40 - Financial assets available for sale	60 - Receivables	100 - Tangible assets	110 - Intangible assets	120 - Tax assets: current and pre-paid	140 - Other assets	Total
10.	Cash and cash equivalents	283									**283**
20.	Financial assets measured at fair value impacting on income statement										**6,514,670,906**
	a) financial assets held for trading (for CCP activities)		6,500,198,659								***6,500,198,659***
	c) other financial assets with mandatory measurement at fair value (for CCP activities)			14,472,247							***14,472,247***
30.	Financial assets measured at fair value impacting on comprehensive income				5,660,549,370						**5,660,549,370**
40.	Financial assets measured at amortised cost										**121,964,890,840**
	a) receivables from banks					8,834,690,994					***8,834,690,994***
	b) receivables from financial companies					2,785,863,383				57,655	***2,785,921,038***
	c) receivables from customers					-					-
	d) other receivables					110,344,278,808					***110,344,278,808***
80.	Tangible assets						486,459				**486,459**
90.	Intangible assets							2,291,155			**2,291,155**
100.	Tax assets										**835,474**
	a) current								835,474		***835,474***
	b) prepaid								-		-
120.	Other assets									4,289,066	**4,289,066**
TOTAL ASSETS		**283**	**6,500,198,659**	**14,472,247**	**5,660,549,370**	**121,964,833,185**	**486,459**	**2,291,155**	**835,474**	**4,346,721**	**134,148,013,553**

IFRS 9		IAS 39										
LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS		10 - Payables	30 - Financial liabilities held for trading (for CCP activities)	40 - Financial liabilities measured at fair value (for CCP activities)	70 - Tax liabilities: current and pre-paid	90 - Other liabilities	100 - Employee severance indemnity provision	120 - Capital	160 - Reserves	170 - Valuation reserves	180 - Profit (Loss) for the year	Total
10.	Financial liabilities measured at amortised cost											**127,457,357,998**
	a) payables	127,457,357,998										***127,457,357,998***
20.	Financial liabilities held for trading (for CCP activities)		6,500,198,659									**6,500,198,659**
30.	Financial liabilities measured at fair value (for CCP activities)			13,993,369								**13,993,369**
60.	Tax liabilities											**345,582**
	a) current				-							-
	b) deferred				345,582							***345,582***
80.	Other liabilities					7,061,068	(6,671)					**7,054,397**
90.	Employee severance indemnity provision						1,169,541					**1,169,541**
110.	Share capital							33,000,000				**33,000,000**
150.	Reserves								88,029,283			**88,029,283**
160.	Valuation reserves									1,578,758		**1,578,758**
170.	Profit (Loss) for the year										45,285,966	**45,285,966**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**127,457,357,998**	**6,500,198,659**	**13,993,369**	**345,582**	**7,061,068**	**1,162,870**	**33,000,000**	**88,029,283**	**1,578,758**	**45,285,966**	**134,148,013,553**

IAS/IFRS and the relevant IFRIC interpretations endorsed by the EU as of 30 November 2018 and applicable to financial statements for financial years starting after 1 January 2019.

Document title	Issue date	Date of entry in force	Date of approval	EU Registration and date of publication	Notes and references
IFRS 16 - Leasing	Jan-16	1° January 2019	31-Oct-17	(UE) 2017/1986 09-Nov-17	Early application is allowed
Advance payment elements with negative compensation (Amendments to IFRS 9)	Oct-17	1° January 2019	22-Mar-18	(UE) 2018/498 26-Mar-18	Early application is allowed
IFRIC 23 Interpretation – Uncertainty about treatment for income tax purposes	Jun-17	1° January 2019	23-Oct-18	(UE) 2018/1595 24-Oct-18	Early application is allowed

IFRS 16

IFRS 16 replaces the current provisions on leasing, including 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 principles for recognising, measuring, presenting and disclosing leases and requires that lessees recognise all lease contracts in the financial statements based on a single model similar to the one used to recognise financial leases pursuant to IAS 17. The standard provides for two exemptions from applying the model: lease contracts relating to "low value" assets and short-term lease contracts. Except for the contracts falling into the categories referred to above, at the commencement date of the lease, the lessee recognises a liability against the future payments that have been undertaken by signing the contract (i.e. Lease liability) and an asset representing the right-of-use asset under a lease, for the duration of the contract (i.e. right-of-use asset). Lessees must recognise the financial costs accrued on the lease and amortisation of the right of use asset separately in the income statement.

Lessees must also remeasure the lease liability should specific events occur (for example: a change in the lease contract conditions, a change in the future lease payments following a change in an index or rate used to determine said payments). The lessee will generally recognise the remeasurement amount for the lease liability as an adjustment to the right-of-use asset.

IFRS 16 was endorsed by the European Union in October 2017 and is applicable in the preparation of financial statements for financial periods as from 1 January 2019.

The standard provides an option to apply the new provisions, with a full retrospective effect or a modified retrospective effect. The Company is moving towards adopting the modified retrospective approach. Data for the comparative period will therefore not be reformulated, and will be applied with certain simplifications and practical expedients as permitted by the reference standard.

The Parent Company LSE initiated a centralised analysis and development project, involving the Company, for the purpose of defining qualitative and quantitative impacts and any interventions that may become necessary for the adoption of the new standard. The preliminary assessment on the potential effects on the balance sheet have been completed, but the more detailed analysis will be finalised during 2019.

New accounting principles and interpretations already issued but not yet in force

IAS/IFRS and the relative IFRIC interpretations not yet endorsed with effective date after 1 January 2018

Document title	Issue date by IASB	Date of entry in force of IASB document	Date of planned approval by European Union
Standards			
IFRS 14 Regulatory Deferral Accounts	Jan-14	(Nota 1)	(Nota 1)
IFRS 17 Insurance Contracts	May-17	1° January 2021	TBD
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Sep-14	Deferred until completion of the IASB project on the equity method	Postponed pending the conclusion of the IASB project on the equity method
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	Oct-17	1° January 2019	2018
Annual Improvements to IFRS Standards (2015-2017 Cycle)	Dec-17	1° January 2019	2018
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	Feb-18	1° January 2019	2018
Amendments to References to the Conceptual Framework in IFRS Standards	Mar-18	1° January 2019	2019
Definition of business (Amendments to IFRS 3)	Oct-18	1° January 2019	2019
Definition of material (Amendments to IAS 1 and IAS 8)	Oct-18	1° January 2019	2019

(Note 1) IFRS 14 entered into force on 1 January 2016, but the European Commission decided to suspend the approval process pending the new accounting principle on "rate-regulated activities".

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

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

In the period between the date of the financial statements and their approval by the Board of Directors no events have occurred that require an adjustment of the data approved at that meeting. The proposed financial statements were approved by the Board of Directors on 22 March 2019 and were authorised for publication on that date (IAS 10).

Section 4 - Other aspects

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

Cassa di Compensazione e Garanzia S.p.A.'s financial statements for the year ending 31 December 2018 are subject to an accounting audit by EY S.p.A.

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

Evaluation criteria and accounting principles

Cash and cash equivalents

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

Financial assets measured at fair value impacting on the income statement - Financial trading assets/liabilities for Central Counterparty activities

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

In particular, these items include:

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

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

Financial assets measured at fair value impacting on the income statement - Other financial trading assets/liabilities measured at fair value for Central Counterparty activities

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

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

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

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

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

Financial assets measured at fair value impacting on comprehensive income

This item includes all financial assets (debt instruments, equities and loans) classified in the portfolio at fair value, impacting on comprehensive income. The CCP has decided to include in this item all financial assets that do not belong to other categories of financial instruments typical of its core business.

Those assets are initially measured at fair value, which corresponds to the purchase or subscription cost of the transaction.

This category includes investment in secured assets of margins and of payments to the default funds deposited by members with the central guarantee system, in compliance with new EMIR regulations.

This refers to EU country Government Bonds and Bonds issued by the European Union and Supranational Bonds issued by the European Investment Bank, the European Stability Mechanism and the European Financial Stability Facility, as well as bonds issued by government agencies of EU countries recognised at fair value under financial assets measured at fair value impacting on comprehensive income - SP Assets, item 30.

After the initial recording, accrued interest is shown in the Income Statement according to the actual interest rate of the transaction. Financial assets measured at fair value impacting on comprehensive income are measured at fair value on the basis of the closing prices published on the active market. Capital gains and losses resulting from changes in the fair value are shown directly in the shareholders' equity, in an appropriate evaluation reserve fund, except for losses deriving from a reduction in value.

In case of sale before maturity, the profits and losses from a valuation pending in the shareholders' equity reserve fund are shown in the income statement in item 100, "Profit/loss deriving from disposal or repurchase of financial assets".

Financial assets/liabilities valued at amortised cost

The initial recognition of financial assets is done on the settlement date for debt instruments and on the date of disbursement in the case of receivables. At the time of initial recognition, assets are stated at their fair value, which normally corresponds to the total amount disbursed for costs/incomes directly determined from the start of the transaction, referring to individual instruments, even if they are settled at a subsequent date. Even though they may have the stated characteristics, costs are excluded when they refer to a reimbursement by the debtor counterparty or if they qualify as administrative costs.

Included in this category are financial assets represented by debt instruments, managed within the scope of a "held to collect" business model, where the contractual flows only represent principal payments and interest on the residual principal (Solely Payment of Principal and Interest test – SPPI – passed). Receivables that do not pass the SPPI test are classified under the portfolio of financial assets that must be measured at fair value (see Financial assets measured at fair value impacting the income statement - Item 20).

After the initial recognition, financial assets stated in this category are measured at amortised cost. The amortised cost equals the difference between the gross carrying amount and the provision for losses determined by the expected credit losses.

The gross carrying amount is the amount in the initial recognition, decreased/increased by:

- principal repayments;
- the amortisation of the difference between the amount paid and the amount reimbursable on expiry, represented by initial costs/incomes. The amortisation is calculated based on the effective interest rate method, which considers these costs/income;
- profits/losses from a concession.

The amortised cost method is not used for short-term receivables where the discounting effect would be negligible. A similar criterion is adopted for receivables without a definite expiry or demand receivables).

At the close of each financial period or interim position, financial assets measured at amortised cost are subject to impairment with the recognition of the expected credit losses (over a 12 month time frame or based on the financial instrument's entire life, should the credit risk rise significantly in relation to the financial asset's initial recognition – lifetime expected losses).

Financial assets measured at amortised cost, are classified under three categories (defined as stages) for impairment purposes, in ascending order according to the deterioration in credit quality.

The first category – stage 1 – includes financial instruments that have not undergone a significant increase in the credit risk since initial recognition.

The second category – stage 2 – includes financial instruments that have undergone a significant increase in credit risk, which is measured by taking into account the indicators set by the accounting standard and the relevance these have for the company.

The third category – stage 3 – includes all impaired positions.

Expected credit losses over a 12 month time frame are recognised for financial instruments in the first category. For financial instruments in the other two categories, expected losses are determined over the course of the financial instrument's entire life cycle (lifetime expected losses).

Receivables/Payables due to/from clearing members

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

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

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

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

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

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

Tangible assets

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

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

Intangible assets

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

Impairment of assets

The Company reviews the book value of its tangible and intangible assets to determine whether there are signs that these assets have suffered any impairment.

It is not possible to individually estimate the recoverable amount of an asset; the company estimates the recoverable value of the unit generating the financial flow to which the asset belongs[3].

Impairment is recorded if the recoverable amount is below the book value. This impairment is restored in the event that the reasons that led to impairment no longer exist, up to the maximum amount of the original value.

Other assets/liabilities

These are valued at cost, representative of the recoverable value of assets; since they are short-term items, they are not discounted. The item includes receivables relating to bankruptcy

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[1] The depreciation periods for each category of tangible fixed assets are as follows:
- Automatic data processing systems 3 years
- Plant and equipment 5 years
- Furniture and fittings 3 years

[2] They refer to:
- software licences, amortised over three years;
- costs for the development of application software, amortised over three years;
- ongoing intangible assets and payments on account relating to costs incurred for the development of specific application software and the purchase of software licences for projects not yet completed; no amortisation has been calculated on this item.

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

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

Financial assets and liabilities subject to offsetting in the financial statements

As from last year, based on a Group decision, it was decided to provide more information on the presentation of net or gross financial assets and liabilities (so-called offsetting), in accordance with IAS 32, paragraph 42.

In particular, IAS 32 requires the exposure of financial assets and financial liabilities on a net basis if this representation reflects the future cash flows that the entity expects to obtain from the settlement of two or more separate financial instruments.

There are essentially two criteria for such compensation:

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

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

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

Employee severance indemnity

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

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

Payments based on shares

Payments to employees based on shares of the Parent Company London Stock Exchange Group plc are recognised by reporting at cost in the Income Statement the portion of the share allocation plan, determined at fair value on the date of granting of the plan and taking into account the terms and conditions on which such instruments are granted.

For the purpose of being in line with Group policies, starting from 1 January 2016 the relevant debt is reported among current liabilities - short-term intercompany debts (until 31 December 2015 the debt was reported in the shareholders' equity in an appropriate reserve fund).

If the SBPs are identified as equity settled, an increase is recorded in the corresponding reserve for shareholders' equity in accordance with IFRS 2.

In addition to the cost of the share allocation plan, the portion of employee severance indemnity that the company shall settle or pay at the end of the accrual period is shown in the Income Statement by recording an increase of the relevant liabilities.

Revenue and costs recognition

For the purposes of recognising revenue, IFRS 15 is based on the principle of transferring control, and not only the transfer of risks and benefits.

The new standard requires that the contract identifies all performance obligations, where applicable, each with its own revenue recognition model. An analysis of the performance obligations therefore forms the basis for the recognition of each revenue component relating to the different products and/or services offered.

Services are deemed to have been transferred once the customer gains control thereof.

Revenue arising from the rendering of services is not recognised in the income statement while there is a strong possibility that a significant reversal could occur. Costs are recognised at the time they are incurred.

Interest payable/receivable and similar income and expenses

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

Taxes

Taxes for the period were calculated on the basis of tax regulations currently in force.

Deferred taxes are calculated in accordance with the method of line-by-line allocation of liabilities; they are calculated on all temporary differences that emerge between the taxable base of an asset or liability and the book value in the financial statements.

Deferred tax assets (prepaid taxes) are recognised if it is likely that future taxable income will be earned against which deferred tax assets can be recovered.

Current and deferred tax assets and liabilities are offset when income taxes are applied by the same tax authorities and when there is a legal right for offsetting.

Deferred and prepaid tax assets are reported as a contra entry in the shareholders' equity in relation to capital gains and losses arising from changes in fair value of securities in the portfolio classified as available for sale.

Guarantees and commitments

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

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

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

Use of estimates

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

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

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

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

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

A.4 – Fair value disclosure

Information of a qualitative nature

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

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

Fair value measurements are classified according to hierarchy of levels that reflects the significance of the inputs used in the measurements. Because CC&G operates exclusively on regulated markets, assets and financial liabilities at fair value are only "Level 1" and that - as defined by IFRS 13 - refers to quoted prices (unadjusted) in an active market for the assets or liabilities to be measured.

A.4.2 Processes and sensitivity of evaluations

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

A.4.3 The fair value hierarchy

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

Level 1 Quoted prices (without adjustments) on the active market as defined by IFRS 13 for assets or liabilities to be measured.

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

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

A.4.4 Other information

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

1 With reference to receivables and payables, valued in the financial statements at amortised cost in accordance with IAS 39, it is considered that this valuation reasonably approximates the fair value of these items for which a hierarchy of fair value of category 3 is indicated in the tables in the Explanatory Notes to the financial statements

Disclosure of quantitative information

A.4.5 The fair value hierarchy

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

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

	31/12/2018			31/12/2017		
Financial assets/liabilities measured at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value impacting on income statement						
a) financial assets held for trading	5,417,825,243			6,500,198,659		
b) financial assets designated at fair value						
c) other financial assets with mandatory measurement at fair value	10,363,181			14,472,247		
2. Financial assets measured at fair value impacting on comprehensive income	5,616,062,583			5,660,549,370		
Total	**11,044,251,007**	**-**	**-**	**12,175,220,276**	**-**	**-**
1. Financial liabilities held for trading	5,417,825,243			6,500,198,659		
2. Financial liabilities measured at fair value	5,813,447			13,993,369		
Total	**5,423,638,690**	**-**	**-**	**6,514,192,028**	**-**	**-**

Key:

L1= Level 1

L2= Level 2

L3= Level 3

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

Assets and liabilities not measured at fair value or measured at fair value on a non recurring basis	31/12/2018				31/12/2017			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	168,181,952,293			168,181,952,293	121,964,890,839			121,964,890,839
Total	**168,181,952,293**	**-**	**-**	**168,181,952,293**	**121,964,890,839**	**-**	**-**	**121,964,890,839**
1. Financial liabilities measured at amortised cost	173,636,764,589			173,636,764,589	127,457,357,998			127,457,357,998
Total	**173,636,764,589**	**-**	**-**	**173,636,764,589**	**127,457,357,998**	**-**	**-**	**127,457,357,998**

Key:

BV = Book Value

L1= Level 1

L2= Level 2

L3= Level 3

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

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

ANALYSIS OF THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Part B – Information on the Balance Sheet

BALANCE SHEET - ASSETS

Section 1 - Cash and cash equivalents - Item 10

This item amounts to € 193 (€ 283 at 31 December 2017) and consists of cash in hand.

1.1 Breakdown of item 10 "Cash and cash equivalents"

Items/Values	**Total 31/12/2018**	**Total 31/12/2017**
Cash and cash equivalents	193	283
Total	**193**	**283**

Section 2 -Financial assets measured at fair value impacting the income statement - Item 20

Item 20a - Financial assets held for trading for CCP activities

This item, relating to derivative instruments transactions, amounts to € 5,417,825,243 (€ 6,500,198,659 at 31 December 2017) and relates to the net matching entry of open positions (so-called "open interest") of financial assets held for trading for CCP activities. This item represents the measurement at fair value of open interest positions on the derivatives markets (IDEM Equity, IDEX and Agrex), in which the Company operates as central counterparty.

2.1 Financial assets held for trading: composition breakdown

Items/Values	**Total 31/12/2018**			**Total 31/12/2017**		
	L1	L2	L3	L1	L2	L3
B. Derivative financial instruments						
1. Financial derivatives	5,417,825,243			6,500,198,659		
1.1 for trading	5,417,825,243			6,500,198,659		
FTSE stock market index derivatives:	*3,679,688,808*			*4,820,606,547*		
- Futures	*2,903,996,130*			*3,990,589,965*		
- Mini Futures	*56,644,670*			*88,121,539*		
- Options	*719,048,008*			*741,895,043*		
Single stock derivatives:	*1,728,751,121*			*1,658,584,298*		
- Futures	*741,338,821*			*1,090,027,174*		
- Options	*987,412,300*			*568,557,124*		
Commodities derivatives	*9,385,314*			*21,007,814*		
Total	**5,417,825,243**			**6,500,198,659**	**-**	**-**

Key:
L1= Level 1
L2= Level 2
L3= Level 3

2.2 Derivative financial instruments

Underlying assets/type of derivatives	Total 31/12/2018				Total 31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without Central Counterparties			Central Counterparties	Without Central Counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
2. Equities and share indices								
- Fair Value				5,408,439,929				6,479,190,845
5. Goods								
- Fair Value				9,385,314				21,007,814
Total	**-**	**-**	**-**	**5,417,825,243**	**-**	**-**	**-**	**6,500,198,659**

2.3 Financial assets held for trading: breakdown by debtor/issuers/counterparties

Items/Values	Total 31/12/2018	Total 31/12/2017
B. DERIVATIVE INSTRUMENTS	**5,417,825,243**	**6,500,198,659**
a) Central Counterparties	-	-
b) Others	5,417,825,243	6,500,198,659
Total	**5,417,825,243**	**6,500,198,659**

Item 20c - Other financial assets with mandatory measurement at fair value for CCP activities

This item, which refers to non-derivative financial instruments transactions, amounted to € 10,363,181 (€ 14,472,247 in the previous year).

2.6 Other financial assets with mandatory measurement at fair value: composition breakdown

Items/Values	Total 31/12/2018			Total 31/12/2017		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**9,384,474**			**6,353,141**		
Financial instruments traded but not yet settled (1):	5,095,760			6,147,124		
- Government bonds	*5,095,760*			*6,147,124*		
Financial instruments in the portfolio (2):	4,288,714			206,017		
- Government bonds	*4,288,714*			*206,017*		
2. Equities and UCITS units	**978,707**			**8,119,106**		
Financial instruments traded but not yet settled (1):	545,384			7,864,442		
- Equity instruments	*545,384*			*7,864,442*		
Financial instruments in the portfolio (2):	433,323			254,664		
- Equity instruments	*433,323*			*254,664*		
Total	**10,363,181**			**14,472,247**		

Key:
L1= Level 1
L2= Level 2
L3= Level 3

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

the financial year; these values incorporate the valuation at market prices at the date of the financial statements.

Section 3 -Financial assets measured at fair value impacting the comprehensive income - Item 30

3.1 Financial assets measured at fair value impacting on comprehensive income: composition breakdown

Items/Values	Total 31/12/2018			Total 31/12/2017		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**5,616,062,583**			**5,660,549,370**		
1.1 Structured instruments	-			-		
1.2 Other debt instruments	5,616,062,583			5,660,549,370		
of which: securities purchased through equity financing	*123,305,828*			*119,889,460*		
of which: securities purchased with contributions of the participants	*5,492,756,755*			*5,540,659,910*		
Total	**5,616,062,583**	**-**	**-**	**5,660,549,370**	**-**	**-**

Key:
L1= Level 1
L2= Level 2
L3= Level 3

This item includes all investments in secured assets paid in cash by members of the central counterparty system. Investments linked to the Company's equity were also included to meet the requirements of EU regulation no. 648/2012 (EMIR), Article 47, paragraphs 1 and 2 in terms of Regulatory Capital invested in secured assets.
The overall investment amounts to € 5,616,062,583, corresponding to a nominal value of € 5,498,700,000 of securities in portfolio, and a purchase value of € 5,661,577,851, adjusted for interest not yet accrued at the date and € -8,598,288 resulting from the measurement of securities at fair value at 31.12.2018.
The share of securities representing the Company's equity, included in the aforementioned total, amounts to € 123,305,828 corresponding to a nominal value of € 119,300,000 and a purchase value of € 129,187,394, adjusted for interest not yet accrued at the date and € -153,057 as the effect deriving from the measurement of securities at fair value at 31.12.2018.
Part of the Company's funds are invested in securities, in compliance with EMIR rules on regulatory capital requirements of central counterparties.
Currently the investment in secured assets consists of Government Bonds issued by the Governments of Belgium, France, Ireland, Italy, Portugal and Spain; Supranational Bonds issued by the European Investment Bank, the European Stability Mechanism and European Financial Stability Facility, as well as securities issued by the Spanish (Instituto de Credito Oficial) and German government agencies (Kreditanstalt fur Wiederaufbau). These securities were recorded at their fair value and valued on the basis of the public market prices on the date of these financial statements. The amount of the valuation is recorded under equity in the Balance Sheet, item 160, net of prepaid and deferred taxes that do not have any economic impact, as they reflect only the theoretical taxation of Equity items. These prepaid and deferred taxes are referred to under item 100 B of assets in the Balance Sheet and item 60 B of liabilities in the Balance Sheet.

3.2 Financial assets measured at fair value impacting on comprehensive income: breakdown by debtor/issuers

Items/Values	Total 31/12/2018	Total 31/12/2017
1. Debt instruments	**5,616,062,583**	**5,660,549,370**
- Governments and Central Banks	4,923,127,463	4,485,883,418
- Other issuers	692,935,120	1,174,665,952
Total	**5,616,062,583**	**5,660,549,370**

Section 4 – Financial assets measured at amortised cost – Item 40

Item 40a - Receivables from banks

This item amounts to € 11,073,310,105 (€ 8,834,690,994 in the preceding financial year).

4.1 Financial assets measured at amortised cost: composition breakdown in respect of banks

Breakdown	Total 31/12/2018						Total 31/12/2017					
	Book Value			Fair Value			Book Value			Fair Value		
	First and second stage	Third stage	of which: acquired or originated impaired	L1	L2	L3	First and second stage	Third stage	of which: acquired or originated impaired	L1	L2	L3
1. Bank deposits and accounts	**9,507,403,838**					**9,507,403,838**	**5,346,907,363**					**5,346,907,363**
Cash in bank accounts originated from own funds (1)	28,893,757					28,893,757	111,839,366					111,839,366
Cash in bank accounts originated by payments of the participants (1)	14,454,200					14,454,200	85,187,537					85,187,537
Cash in Banca Centrale Nazionale accounts originated by payments of the members (2)	9,464,055,881					9,464,055,881	5,149,880,460					5,149,880,460
2. Loans	**330,000,000**					**330,000,000**	**1,240,000,000**					**1,240,000,000**
2.1 Repurchase agreements (3)	330,000,000					330,000,000	1,240,000,000					1,240,000,000
4. Other assets	**1,235,906,267**					**1,235,906,267**	**2,247,783,631**					**2,247,783,631**
Clearing commissions on contracts entered into in relevant month (4)	1,102,118					1,102,118	2,306,305					2,306,305
Commissions on securities deposited as collateral (4)	302,032					302,032	144,607					144,607
Receivables from participants for margins and premiums	10,635,430					10,635,430	117,895,966					117,895,966
Receivables guaranteed by securities (5)	1,193,866,687					1,193,866,687	700,236,753					700,236,753
Receivables from MIC members (6)	30,000,000					30,000,000	1,427,200,000					1,427,200,000
Total	**11,073,310,105**					**11,073,310,105**	**8,834,690,994**					**8,834,690,994**

Key:
L1= Level 1
L2= Level 2
L3= Level 3

(1) This item includes interest income accrued on bank accounts and still not paid, entered in bank accounts availabilities on an accrual basis.
(2) The rules provided by Article 47, paragraph 4 of EU Regulation No 648/2012 (EMIR) govern the investment policy of CCPs, whereby the cash deposits on a CCP must be constituted through highly secure mechanisms with authorized financial entities or, alternatively, through the use of deposits with the National Central Banks.
(3) The rule provided for by Article 45, paragraph 2 of the Delegated Regulation No 153/2013 (ESMA) provides that, if cash is not deposited with the Central Bank, but is kept overnight, no less than 95% of that cash will be deposited into collateralised deposits, including repurchase agreements. CC&G intended to use triparty agents (the principal international CSDs) in order to comply with such rules.
(4) These amounts have been collected on the first day of market trading of the month following the reference month.
(5) These represent the amounts of initial margins due by banks, for open interest positions at the close of the financial year and not yet paid in cash since guaranteed by the prior deposit of securities.
(6) These refer to existing contracts traded on the Collateralised Interbank Market (MIC Mercato Interbancario Collateralizzato) as of the closing of the financial year.

Item 40b – Receivables from financial companies

This item amounts to € 4,334,816,824 (€ 2,785,921,037 in the preceding financial year).

4.2 Financial assets measured at amortised cost: breakdown by credit products in respect of financial companies

Breakdown	Total 31/12/2018						Total 31/12/2017					
	Book Value			Fair Value			Book Value			Fair Value		
	First and second stage	Third stage	of which: acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: acquired or originated	L1	L2	L3
3. Other assets:	**4,334,816,824**					**4,334,816,824**	**2,785,921,037**					**2,785,921,037**
Clearing commissions on contracts entered into in relevant month (1)	1,869,513					1,869,513	582,935					582,935
Commissions on securities deposited as collateral (1)	3,156					3,156	13,229					13,229
Receivables from participants for margins and premiums	461,391,317					461,391,317	18,959,406					18,959,406
Receivables guaranteed by securities (2)	4,289,838					4,289,838	13,615,050					13,615,050
Receivables from other clearing and guarantee systems (3)	3,866,610,718					3,866,610,718	2,752,554,862					2,752,554,862
Receivables from Group financial companies	-					-	57,655					57,655.00
Other receivables for services (4)	652,282					652,282	137,900					137,900
Total	**4,334,816,824**					**4,334,816,824**	**2,785,921,037**					**2,785,921,037**

Key:
L1= Level 1
L2= Level 2
L3= Level 3

(1) These amounts have been collected on the first day of market trading of the month following the reference month.
(2) These represent the amounts of initial margins due by financial companies, for open interest positions at the close of the financial year and not yet paid in cash since guaranteed by the prior deposit of securities.
(3) These correspond to the margins paid to LCH Clearnet SA for the interoperability link existing with the French central counterparty on the MTS market; in particular the balance can be broken down into € 3,141,295,286 for initial margins and € 721,000,000 for the Additional Initial Margin, as well as receivables from interest for € 4,315,432.
(4) These trade receivables refer primarily to receivables for invoices issued and still to be issued in respect of financial companies participating on the LSE Derivatives Market based on BCS technological infrastructure, invoices not yet issued in respect of the Austrian CCP for consulting services and invoices relating to the period issued with regard to the Bucharest Stock Exchange for consulting services.

Item 40d – Other receivables

This item amounts to € 152,773,825,364 (€ 110,344,278,808 in the preceding financial year).

4.6 Financial assets measured at amortised cost: composition breakdown for other receivables

Breakdown	Total 31/12/2018						Total 31/12/2017					
	Book Value			Fair Value			Book Value			Fair Value		
	First and second stage	Third stage	of which: acquired or originated impaired	L1	L2	L3	First and second stage	Third stage	of which: acquired or originated impaired	L1	L2	L3
3. Other assets:	**152,773,825,364**					**152,773,825,364**	**110,344,278,808**					**110,344,278,808**
Receivables for interest on cash deposited by participants (1)	21,329,124					21,329,124	18,556,868					18,556,868
Receivables from repo transactions for CCP activities (2)	152,752,492,779					152,752,492,779	110,325,721,940					110,325,721,940
Receivables vis-a-vis participants in the ICSD settlement system	3,461					3,461	-					-
Total	**152,773,825,364**					**152,773,825,364**	**110,344,278,808**					**110,344,278,808**

Key:
L1= Level 1
L2= Level 2
L3= Level 3

(1) These represent interest owed to the members on the cash deposited to cover initial margins and default funds. The rate applied to deposits is equal to the daily Eonia rate minus 30 basis points for margins and the daily Eonia rate minus 25 basis points for default funds.
(2) This represents, like the corresponding item 10 in the liabilities, the value of repo transactions carried out by members using the CCP service.

This item includes the receivables where it was not possible to make a distinction between Receivables from banks, Receivables from financial companies and Receivables from customers in operational terms, as required in terms of Bank of Italy Circular 140 of 11 February 1991 containing the "Instructions relative to customer classification".

Section 8 - Tangible assets - Item 80

8.1 Tangible assets held for operating purposes: breakdown of assets measured at cost

Assets/values	Total 31/12/2018	Total 31/12/2017
1. Own assets:	**857,633**	**486,459**
c) furniture	12,415	14,021
d) electronic systems	836,019	458,222
e) other	9,199	14,216
Total	**857,633**	**486,459**

During this financial year electronic systems were purchased for € 582 thousand.

8.6 Tangible assets held for operating purposes: annual changes

	Furniture	Electronic systems	Other	**Total**
A. Gross opening balance	**337,492**	**8,470,600**	**30,103**	**8,838,195**
A.1 Total net value reductions	(323,471)	(8,012,378)	(15,887)	(8,351,736)
A.2 Net opening balance	**14,021**	**458,222**	**14,216**	**486,459**
B. Increases	**(5,552)**	**575,614**	-	**570,062**
B.1 Purchases	1,016	581,873	-	582,889
B.7 Other changes	(6,568)	(6,259)	-	(12,827)
C. Decreases	**3,946**	**(197,817)**	**(5,017)**	**(198,888)**
C.1 Sales	-	-	-	-
C.2 Amortizations and depreciations	(2,622)	(204,076)	(5,017)	(211,715)
C.7 Other changes	6,568	6,259	-	12,827
D. Net closing balance	**12,415**	**836,019**	**9,199**	**857,633**
D.1 Total net value reductions	319,526	8,210,194	20,905	8,550,625
D.2 Gross closing balance	**331,941**	**9,046,213**	**30,104**	**9,408,258**

Section 9 - Intangible assets - Item 90

9.1 Intangible assets: breakdown

Items/Valuation	Total 31/12/2018		Total 31/12/2017	
	Assets measured at cost	Assets measured at fair value	Assets measured at cost	Assets measured at fair value
2. Other intangible assets:	**2,393,859**		**2,291,155**	
2.1 own assets	2,393,859		2,291,155	
- other	2,393,859		2,291,155	
Total	**2,393,859**		**2,291,155**	

9.2 Intangible assets: annual changes

	Total
A. Opening balance	**2,291,155**
B. Increases	**1,513,275**
B.1 Purchases	1,513,275
C. Decreases	**(1,410,571)**
C.2 Amortizations and depreciations	(1,410,571)
D. Final balance	**2,393,859**

Increases for software purchases related mainly to:

- licence renewal for the Treasury system;
- supply of the Clearing system technological service in "Software as a Service" (SaaS) mode, as per EMIR regulations, to the Austrian Central Counterparty (CCP.a), replacing the system provided by the London Stock Exchange;
- adoption of a margining system, "Value at Risk" type methodology for the fixed income portion;
- automation of coupon compensation management based on direct debiting.

The decreases are due to depreciation for the year.

Section 10 – Tax assets and tax liabilities – Item 100 under assets and Item 60 under liabilities

At 31 December 2018, the balance on tax assets referred to prepaid tax assets for € 3,075,685. The balance on tax liabilities stood at € 153,531 and referred to current tax liabilities.

10.1 "Tax assets: current and pre-paid": breakdown

Items/Breakdown	**Total 31/12/2018**	**Total 31/12/2017**
Tax assets:		
a) current	-	835,474
b) prepaid	3,075,685	-
Total	**3,075,685**	**835,474**

10.2 "Tax liabilities: current and pre-paid": breakdown

Items/Breakdown	**Total 31/12/2018**	**Total 31/12/2017**
Tax liabilities:		
a) current	(153,531)	-
b) deferred	-	(345,582)
Total	**(153,531)**	**(345,582)**

10.3 Changes in prepaid tax (counter entry in income statement)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**431,855**	**485,652**
2. Increases	**21,734**	**42,649**
2.1 Prepaid tax recorded during the year	21,734	42,649
d) other	21,734	42,649
3. Decreases	**(135,071)**	**(96,446)**
3.1 Prepaid tax cancelled during the year	(135,071)	(96,446)
a) reversals	(135,071)	(96,446)
d) other	-	-
4. Final amount	**318,518**	**431,855**

Increases for prepaid tax recorded during the year

Items/Technical forms	Amounts	IRES	IRAP	TOTAL
Emoluments due to Directors	21,500	5,913	-	5,913
Fees due to the auditing firm	39,900	10,973	-	10,973
Unrealized exchange losses	13,820	3,801	-	3,801
Membership fees	3,806	1,047	-	1,047
Total	79,026	21,734	-	**21,734**

Reductions for prepaid taxes cancelled during the year

Items/Technical forms	Amounts	IRES	IRAP	TOTAL
Emoluments due to Directors	(13,589)	(3,737)	-	(3,737)
Fees due to the auditing firm	(39,900)	(10,973)	-	(10,973)
Differences in IAS and tax amortizations	(255,792)	(120,361)	-	(120,361)
Total	**(309,281)**	**(135,071)**	**-**	**(135,071)**

10.6 Changes in deferred tax (counter item in the shareholders' equity)

	Total 31/12/2018	Total 31/12/2017
1. Opening balance	**(777,437)**	**(2,267,279)**
2. Increases	**3,534,604**	**-**
2.1 Deferred tax recorded during the year	3,534,604	-
c) other	3,534,604	-
3. Decreases	**-**	**1,489,842**
3.1 Deferred tax cancelled during the year	-	1,489,842
c) other	-	1,489,842
4. Final amount	**2,757,167**	**(777,437)**

The values shown in table 10.6 above refer to deferred taxes on securities in the portfolio measured at fair value with balancing item in the shareholders' equity.

Section 12 - Other assets - Item 120

12.1 Other assets: breakdown

Breakdown	Total 31/12/2018	Total 31/12/2017
Receivables relating to bankruptcy proceedings (1)	38,508	38,508
Receivables from Group companies (2)	698,775	3,865,445
Other receivables (3)	408,765	375,132
Guarantee deposits	2,500	1,000
Total	**1,148,548**	**4,280,085**

(1) These amounts refer exclusively to certain "traders/negotiators" participating in guarantee funds, which were declared bankrupt in previous years and in relation to which CC&G, as fund manager, took action, pursuant to the applicable provision of law and regulations, in order to recover the disbursement in relation to the insolvent parties in the interest of the members which sustained the disbursement. Any minor collections of these claims will not lead to losses for the Company, because should that be the case, minor debts will arise in relation to members in the funds. The receivable and payable items for bankruptcy proceedings still under way remain outstanding.

(2) "Receivables from Group companies", for a total of € 698,775 are recorded for:
- LSE plc for € 492,060 relating to invoices issued and not yet collected;
- LSE Technology Ltd for € 131,921 relating to invoices issued and not yet collected;
- LSE Business Service Ltd for € 24,000 relating to invoices issued and not yet collected;
- LSE plc for € 50,794 relating to receivables for taxes paid as tax agent on the payment of share awards.

3. Other receivables of € 408,765 refer mainly to other prepaid expenses for costs incurred but not yet accrued for € 295,828, withholding tax on bank interest for € 24,815 in receivables from the fund for banks and receivables in respect of the Banks and Insurance Fund for employee training courses co-financed by the fund for € 37,469.

BALANCE SHEET - LIABILITIES

Section 1 – Financial liabilities measured at amortised cost – Item 10

This item amounts to € 173,636,764,589 (€ 127,457,357,998 at 31 December 2017).

1.1 Financial liabilities measured at amortised cost: composition breakdown by liabilities

Items	Total 31/12/2018				Total 31/12/2017			
	due to banks	due to financial companies	due to costumers	others	due to banks	due to financial companies	due to costumers	others
1. Loans	**460,000,000**				**200,000,000**			
1.1 Repurchase agreements (1)	460,000,000				200,000,000			
2. Other payables	**31,512,836**	**6,855,272,157**		**166,289,979,596**	**1,428,649,923**	**2,700,902,162**		**123,127,805,913**
Interest payable (2)	1,512,836				1,449,923			
Due to participants for margins and premiums				7,139,694,142				7,222,187,887
Due to participants for advance account deposits				974,640,723				337,389,180
Due to participants in default funds				5,416,502,000				5,241,806,000
Due to discount scheme participants				223,894				223,894
Due for repo transactions for CCP activities (3)				152,752,492,779				110,325,721,940
Due to other clearing and guarantee systems (4)		6,855,272,157				2,700,902,162		
Due to participants in MIC	30,000,000				1,427,200,000			
Due to participants in the securities settlement system T2S and ICSD				6,426,058				477,012
Total	**491,512,836**	**6,855,272,157**		**166,289,979,596**	**1,628,649,923**	**2,700,902,162**		**123,127,805,913**
Fair value - level 1								
Fair value - level 2								
Fair value - level 3	**491,512,836**	**6,855,272,157**		**166,289,979,596**	**1,628,649,923**	**2,700,902,162**		**123,127,805,913**
Total Fair value	**491,512,836**	**6,855,272,157**		**166,289,979,596**	**1,628,649,923**	**2,700,902,162**		**123,127,805,913**

(1) This amount refers to repo funding contracts signed by Cassa Compensazione e Garazie with Unicredit S.p.A.

(2) This amount includes € 157,162 of interest payable accrued on repo investments and € 1,355,674, the amount relating to interest accrued on deposits with the National Central Bank, which will be debited at the end of the maintenance period. Effective 10 June 2014, the ECB adopted a negative monthly interest settlement for deposits with central banks by the IMF. This rate, as of 31 December 2018 was equal to -40 bps.

(3) This amount includes, as for the corresponding item 40 under assets, the value of repurchase agreements (repo) entered into by members that use the company's CCP guarantee service.

(4) These correspond to the margins paid by LCH Clearnet SA for the interoperability link existing with the French central counterparty on MTS market. The item includes € 6,097 million for initial margins and € 745 million for the additional initial margin, as well as € 4.94 million for interest due by CC&G on cash deposited as initial margins and additional initial margin, and € 8.43 million for margins to cover fail positions.

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

This item amounts to € 5,417,825,243 (€ 6,500,198,659 in the previous year) and is broken down as follows:

2.1 - Financial liabilities held for trading: composition breakdown

Type of transaction/Securities	Total 31/12/2018					Total 31/12/2017				
	NV	*Fair Value*			Fair value*	NV	*Fair Value*			Fair value*
		L1	L2	L3			L1	L2	L3	
B. Derivative instruments		**5,417,825,243**					**6,500,198,659**			
1. Financial derivatives		5,417,825,243					6,500,198,659			
S&P stock market index derivatives:	x	*3,679,688,808*			x	x	*4,820,606,547*			x
- Futures	x	*2,903,996,130*			x	x	*3,990,589,965*			x
- Mini Futures	x	*56,644,670*			x	x	*88,121,539*			x
- Options	x	*719,048,008*			x	x	*741,895,043*			x
Single stock derivatives:	x	*1,728,751,121*			x	x	*1,658,584,298*			x
- Futures	x	*741,338,821*			x	x	*1,090,027,174*			x
- Options	x	*987,412,300*			x	x	*568,557,124*			x
Commodities derivatives	x	*9,385,314*			x	x	*21,007,814*			x
Total		**5,417,825,243**					**6,500,198,659**	-	-	

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

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

2.4 Details of financial liabilities held for trading: derivative financial instruments

Underlying assets/type of derivatives	Total 31/12/2018				Total 31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without Central			Central Counterparties	Without Central Counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
2. Equities and share indices				**5,408,439,929**				**6,479,190,845**
- Fair Value				5,408,439,929				6,479,190,845
5. Goods				**9,385,314**				**21,007,814**
- Fair Value				9,385,314				21,007,814
Total	-	-	-	**5,417,825,243**	-	-	-	**6,500,198,659**

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

This item amounts to € 5,813,447 (€ 13,993,369 in the preceding financial year) and includes:

3.1 Financial liabilities measured at fair value: composition breakdown

Liabilities	Total 31/12/2018					Total 31/12/2017				
	NV	*Fair Value*			FV*	NV	*Fair Value*			FV*
		L1	L2	L3			L1	L2	L3	
2. Debt instruments		5,813,447					13,993,369			
Bonds		*5,245,332*					*6,129,236*			
Financial instruments traded but not yet settled *- Government bonds*		*5,095,760*			x		*6,147,124*			x
Financial instruments in the portfolio *- Valuation on Government bonds (1)*		*149,572*			x		*(17,888)*			x
Other securities		*568,115*					*7,864,133*			
Financial instruments traded but not yet settled: *- Equity instruments*		*545,384*			x		*7,864,442*			x
Financial instruments in the portfolio: *- Valuation of equity instruments (2)*		*22,731*			x		*(309)*			x
Total		**5,813,447**					**13,993,369**			

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

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

Section 6 - Tax liabilities - Item 60

Reference is made to section 10 under Assets "Tax assets and tax liabilities".

Section 8 - Other liabilities - Item 80

The amount of € 7,122,636 (€ 7,054,397 in the previous financial year), is broken down as follows:

8.1 Other liabilities: breakdown

Items	Total 31/12/2018	Total 31/12/2017
Due to intercompany suppliers (1)	1,788,242	2,549,960
Due for recoveries from bankruptcy proceedings (2)	648,686	648,686
Sundry (3)	2,776,187	1,651,900
Due to suppliers (4)	1,265,036	1,324,819
Due to customers	161	876
Due to social securities and insurance institutions	588,640	599,302
Tax liabilities	55,384	278,263
Prepaid expenses	300	591
Total	**7,122,636**	**7,054,397**

(1) Payables to Group companies for a total of € 1,788,242 are recorded for:
- LSE Group plc for € 404,096 relating to invoices to pay;
- LSE Group Holdings Italia Spa for € 783,913 relating to tax payables in the scope of the tax consolidation;
- Borsa Italiana S.p.A. for € 237,869 relating to invoices to pay;
- Monte Titoli S.p.A. for € 359,187 relating to invoices to pay;
- LSE Business Service Ltd for € 1,242 relating to invoices to pay;
- LSE plc for € 1,935 relating to invoices to pay.

(2) These amounts refer exclusively to receivables claimed for insolvencies of certain "traders/negotiators" participating in guarantee funds, which were declared insolvent in previous years; the corresponding item in the assets side is recorded under "Other assets", amounting to € 39,000. The difference between the amount recorded in liabilities and the amount charged to assets is due to amounts collected but not yet paid to members while awaiting developments in on-going proceedings. The credit and debt positions for insolvency proceedings still under way remain outstanding.

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

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

Section 9- Employee severance indemnity provision - Item 90

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

9.1 Employee severance indemnity provision: annual changes

	Total 31/12/2018	Total 31/12/2017
A. Opening balance	**1,160,559**	**973,664**
B. Increases	**164,444**	**384,697**
B1. Provision for the year	39,613	281,668
B2. Other increases	124,831	103,029
C. Decreases	**(205,919)**	**(197,802)**
C1. Settlements made	(34,576)	(106,154)
C2. Other decreases	(171,343)	(91,648)
D. Final balance	**1,119,084**	**1,160,559**

This table represents the annual changes in the company's employee severance indemnity. The discounted value as per IAS 19 amounts to € 939,326 at 31 December 2018.

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

9.2 Other information
Assumptions for actuarial valuation

	31/12/2018	31/12/2017
Annual technical discount rate	1.57%	1.29%
Annual inflation rate	1.50%	1.50%
Annual rate of salary increase for managers and middle managers	3.50%	3.50%
Annual rate of salary increase for administrative staff	2.50%	2.50%
Annual rate of increase in staff severance indemnity	2.63%	2.63%

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

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

Annual discount rate		Annual inflation rate		Annual turnover rate	
+0.50%	-0.50%	+0.25%	-0.25%	+2.00%	-2.00%
880,098	1,004,530	951,495	927,391	892,794	995,078

Section 11 - Assets - Items 110 - 150 - 160 - 170

The shareholders' equity at the date of the financial statements amounts to € 164,880,688 (€ 167,894,007 in the preceding financial year). For an analytical breakdown of movements in shareholders' equity, reference must be made to the relevant statement.

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

11.1 Capital: breakdown

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

11.5 Other information - Item 150 "Reserves" and item 160 "Valuation reserves"

	Legal reserve	Extraordinary reserve	Regulatory reserves	Share Awards	Reserve for FTA	Reserve for IAS19	Valuation reserve	Other	Total
A. Opening balance	**6,600,000**	**2,518,414**	**21,822,727**	**2,082,568**	**70,540**	**110,045**	**1,468,713**	**54,935,034**	**89,608,041**
B. Increases	**-**	**-**	**82,166**	**-**	**-**	**117,440**	**-**	**2,275,965**	**2,475,571**
B1. Allocation of income	-	-	-	-	-	-	-	2,275,965	2,275,965
B2. Other increases	-	-	82,166	-	-	117,440	-	-	199,606
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**	**(7,223,547)**	**(82,166)**	**(7,305,713)**
C1. Settlements made	-	-	-	-	-	-	-	-	-
C2. Other decreases	-	-	-	-	-	-	(7,223,547)	(82,166)	(7,305,713)
D. Final balance	**6,600,000**	**2,518,414**	**21,904,893**	**2,082,568**	**70,540**	**227,485**	**(5,754,834)**	**57,128,833**	**84,777,899**

These reserves comprise the fully paid up legal reserve pursuant to Article 2430 of the Italian Civil Code, an extraordinary reserve allocated by the company over the years, reserves from First Time Adoption and therefore not distributable, valuation reserves on financial assets available for sale in the portfolio as at 31 December 2018 - shown in item 30, BS Assets - and other reserves.

€ 19,404,893 corresponding to the "skin-in-the-game" (equivalent to 25% of the regulatory capital, which according to European legislation and regulations must be allocated to a restricted reserve) has been allocated to regulatory reserves, following the amendment by the Shareholders' Meeting of 18 April 2018 of the previous reserve amounting to € 19,322,727 (with an increase of € 82,166 compared to the previous year).
It should be noted for the purpose of the reconciliation of the balance of regulatory reserves to the amount of € 21,904,893, that an additional reserve of € 1,000,000, allocated to cover losses (Internal Buffer), was approved by the Shareholders' Meeting of 6 November 2013. On 18 November 2015 the establishment was decided of a reserve, in the amount of € 1,500,000 in compliance with Article B.6.2.3. of CC&G Rules, intended to cover the expenses for the default procedure of a clearing member (second "skin-in-the-game), resolved upon later by the Board of Directors of 2 December 2015 and validated by the Shareholders' Meeting of 13 April 2016.

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

Part C – Information on Income Statement

Section 1 - Interest- Items 10 and 20

Interest receivable and similar revenues - Item 10

This item amounts to € 2,524,278,152 (€ 985,291,833 in the preceding financial year) and is broken down as follows:

1.1 Interest receivable and similar revenues: breakdown

Items/Technical forms	Debt instruments	Loans	Other transactions	Total 31/12/2018	Total 31/12/2017
2. Financial assets measured at fair value impacting on comprehensive income (1)	**(9,370,885)**			**(9,370,885)**	**(18,118,256)**
3. Financial assets measured at amortised cost:		**(30,665,166)**	**2,564,314,203**	**(30,665,166)**	**(23,994,027)**
3.1 Receivables from banks		(30,665,166)		**(30,665,166)**	**(23,994,027)**
- on deposits with commercial banks (2)		*95,442*		***95,442***	***246,882***
- on deposits with the National Central Bank (3)		*(28,057,971)*		***(28,057,971)***	***(16,853,479)***
- on Repos assets (4)		*(2,702,637)*		***(2,702,637)***	***(7,387,430)***
3.2 Receivables from financial companies			(15,471,837)	**(15,471,837)**	**(12,130,865)**
- on deposits with other clearing and guarantee systems (5)			(15,471,837)	**(15,471,837)**	**(12,130,865)**
3.3 Receivables from costumers			2,579,786,040	**2,579,786,040**	**1,039,534,981**
- on Repos for CCP activities (6)			2,579,786,040	**2,579,786,040**	**1,039,534,981**
Total	**(9,370,885)**	**(30,665,166)**	**2,564,314,203**	**2,524,278,152**	**985,291,833**

(1) This item includes negative interest accrued on securities in the portfolio at 31 December 2018 for € -9,370,885 (€ -18,118,256 at 31 December 2017).
(2) This item includes interest accrued on on-demand bank deposits equal to € 95,442 at 31 December 2018 (€ 246,882 at 31 December 2017).
(3) The item includes negative interest accrued on deposits with the National Central Bank, equal to € -28,057,971 as at 31 December 2018, which was debited at the end of the various maintenance periods (the time schedule for the Eurosystem is published annually by BCE). Starting from 10 June 2014, the BCE adopted a negative interest rate for deposits with the central banks by the IMF. Such rate, as of 31 December 2018, is equal to -40 basis points. As at 31 December 2017, interest payable accrued amounted to € -16,853,479 with a negative interest rate equal to -40 basis points.
(4) The item includes interest payable accrued on investments in repos that CC&G carries out in fulfilment of Article 45 of the Delegated Regulation No 153/2013.
(5) The item includes interest payable accrued on amounts deposited with LCH Clearnet SA for initial margins and the Additional Initial Margin.
(6) The item includes the valorisation of repos as at 31 December 2018 for central counterparty activities.

Interest expenses and similar charges- Item 20

This item amounts to € 2,481,186,753 (€ 945,177,013 in the preceding financial year) and is broken down as follows:

1.3 Interest expenses and similar charges: breakdown

Items/Technical forms	Payables	Bonds	Other transactions	Total 31/12/2018	Total 31/12/2017
1. Financial liabilities measured at amortised cost	(98,599,287)		2,579,786,040	**2,481,186,753**	**945,177,013**
1.1 Due to banks	(1,250,276)			**(1,250,276)**	**(43,500)**
- on Repos assets (1)	*(1,250,276)*			***(1,250,276)***	***(43,500)***
1.2 Due to financial companies	(12,031,854)			**(12,031,854)**	**(12,574,188)**
- on deposits with other clearing and guarantee systems (2)	*(12,031,854)*			***(12,031,854)***	***(12,574,188)***
1.3 Due to customers:	(85,317,157)		2,579,786,040	**2,494,468,883**	**957,794,701**
- on deposits by clearing members (3)	*(85,317,157)*			***(85,317,157)***	***(81,740,280)***
- on Repos for CCP activities (4)			*2,579,786,040*	***2,579,786,040***	***1,039,534,981***
Total	**(98,599,287)**		**2,579,786,040**	**2,481,186,753**	**945,177,013**

(1) This item includes interest accrued on repo funding contracts entered into by Cassa Compensazione e Garanzia that were still in place at the end of the period.
(2) The item includes interest accrued on the amounts that CC&G deposited with LCH Clearnet SA for initial margins and the Additional Initial Margin.

(3) This item includes interest owed by members on the cash deposited to cover initial margins and default funds. In fact, the Company has adopted a pricing list whereby the cash deposited by the members entails a negative remuneration at the daily Eonia rate minus 30 basis points for margins and minus 25 basis points for default funds.
(4) The item includes the valorisation of repos as at 31 December 2018 for central counterparty activities.

Section 2 - Commissions - Items 40 and 50

Commission receivable - Item 40
This entry includes commissions received for services performed, amounting to € 45,880,935 (€ 44,749,532 in the preceding financial year), as shown in the following table:

2.1 Commission receivables: breakdown

Breakdown	**Total 31/12/2018**	**Total 31/12/2017**
e) services:	34,740,137	33,801,871
- others	34,740,137	33,801,871
- *clearing activities*	*34,740,137*	*33,801,871*
h) other commissions:	11,140,798	10,947,661
- *other clearing commissions*	*5,270,942*	*5,331,722*
- *shareholdings*	*3,319,471*	*3,377,395*
- *commissions on guarantees deposited*	*2,550,385*	*2,238,544*
Total	**45,880,935**	**44,749,532**

Commissions payable - Item 50

2.2 Commission payable: breakdown

Breakdown/Sectors	**Total 31/12/2018**	**Total 31/12/2017**
d) other commissions	1,395,894	1,345,742
- *bank commissions*	*1,395,894*	*1,345,742*
Total	**1,395,894**	**1,345,742**

This item amounts to € 1,395,894 (€ 1,345,742 in the preceding financial year) and includes commissions payable for lines of credit (for € 473,518), and costs incurred for bank services.

Section 3 - Dividends and similar income - Item 70

This item amounts to € 4,711 (€ 5,332 in the preceding financial year) and represents the amount of dividends collected on withdrawn securities cum-dividend, delivered in subsequent gross settlement cycles, without dividend due to the effect of CC&G's direct intervention in the settlement system. This item must be offset with item 110 from the Income Statement, capital loss from dividends.

3.1 Dividends and similar income: breakdown

Items/Income	**Total 31/12/2018**		**Total 31/12/2017**	
	Dividends and similar income	Similar income	Dividends and similar income	Similar income
B. Other financial assets with mandatory measurement at fair value	4,711	-	5,332	-
Total	**4,711**	**-**	**5,332**	**-**

Section 4 – Net income from trading activities – Item 80

4.1 Net income from trading activities: breakdown

Transactions/Income components	Capital gains (A)	Profit from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
4. Derivative instruments:		**13,232,897,748**		**13,232,897,748**	**-**
4.1 Financial derivatives		13,232,897,748		13,232,897,748	-
Variation margins for CCP activities		*7,860,261,613*		*7,860,261,613*	-
Option premiums for CCP activities		*5,372,636,135*		*5,372,636,135*	-
Total	**-**	**13,232,897,748**	**-**	**13,232,897,748**	**-**

This item represents the losses and profits which, as at 31 December 2018, the Company has obtained as results from trading activities. Since Cassa di Compensazione e Garanzia operates as a central counterparty, there is obviously an equal exposure of both gains and losses, with a net result of zero (as shown above in the income statement summary).

Section 6 – Profit (Loss) from sale or repurchase – Item 100

The balance of the item amounts to € 5,180,864 (€ 7,387,341 in the preceding financial year).

6.1 Profit (Loss) from sale or repurchase: breakdown

Transactions/Income components	**Total 31/12/2018**			**Total 31/12/2017**		
	Profit	Loss	Net result	Profit	Loss	Net result
A. Financial assets	**5,180,864**	**-**	**5,180,864**	**7,387,341**	**-**	**7,387,341**
2. Financial assets measured at fair value impacting on comprehensive income	5,180,864	-	5,180,864	7,387,341	-	7,387,341
2.1 Debt instruments	*5,180,864*	-	*5,180,864*	*7,387,341*	-	*7,387,341*
Total Assets (A)	**5,180,864**	**-**	**5,180,864**	**7,387,341**	**-**	**7,387,341**

The item refers to gains and losses from the sale of securities made in the financial year. Securities, included under item 30 of the Assets side of the BS, are normally held by CC&G until maturity in order to invest the members' margins in secured assets. Sales are conducted solely in order to satisfy the cash requirements of the company or to diversify country risk. The investment of securities in the portfolio is currently diversified into six Eurozone countries, Belgium, France, Ireland, Italy, Spain and Portugal; on Supranational Securities issued by the European Investment Bank, the European Stability Mechanism and European Financial Stability Facility, as well as securities issued by Spanish (Instituto de Credito Oficial) and German government agencies (Kreditanstalt fur Wiederaufbau).

Section 7 – Net income from other financial assets and liabilities measured at fair value impacting the income statement– Item 110

The balance of the item amounts to € 97,315 (€ 185,659 in the preceding financial year).

7.1 Net changes to other financial assets and liabilities measured at fair value impacting on the income statement: breakdown of financial assets and liabilities designated at fair value

Transactions/Income components	Capital gains (A)	Gains on disposals (B)	Capital losses (C)	Losses from disposals (D)	**Net result [(A+B) - (C+D)]**
1. Financial assets	**(5,641,144)**	**102,013**	**(4,698)**		**(5,543,829)**
1.1 Debt instruments	(5,095,760)	96,211	(4,364)		**(5,003,913)**
1.3 Equities	(545,384)	5,802	(334)		**(539,916)**
2. Financial liabilities			**5,641,144**		**5,641,144**
2.1 Debt instruments			5,641,144		**5,641,144**
- bonds			5,095,760		**5,095,760**
- other securities			545,384		**545,384**
Total	**(5,641,144)**	**102,013**	**5,636,446**	**-**	**97,315**

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

Section 10 - Administrative expenses- Item 160

The balance of the item amounts to € 22,965,093 (€ 22,904,337 in the preceding financial year).

10.1 Personnel expenses: breakdown

Type of expense/Values	**Total 31/12/2018**	**Total 31/12/2017**
1. Employees:	**8,133,044**	**7,675,841**
a) Wages and salaries	4,679,974	4,943,435
b) Social security charges	1,143,216	1,107,411
d) Welfare costs	172,150	167,017
e) Provisions for employee severance indemnities	468,812	683,867
h) other employee benefits (1)	1,668,892	774,111
2. Other employees in service (2)	**920,698**	**847,756**
3. Directors and Auditors (3)	**230,216**	**225,103**
Total	**9,283,958**	**8,748,700**

(1) The item other employee benefits includes a leaving incentive, training expenses, meal allowance indemnity and insurance policies.
(2) The "Other employees in service" item includes costs relating to employees seconded at CC&G by Borsa Italiana S.p.A. and Monte Titoli S.p.A. after deducting the costs for CC&G personnel seconded to Monte Titoli S.p.A.
(3) In the Directors and Auditors item, the remunerations of the directors and Board of Statutory Auditors have been included, as per circular No 0101799/10 of 08/02/2010 of the Bank of Italy, entitled "Normativa in materia di bilanci bancari e finanziari / Regulations concerning financial statements for banks and financial institutions".

Changes in personnel during the financial year were as follows:

10.2 Average number of employees by category

Category	31-Dec-17	Hires	Resignations	Transfers	31-Dec-18	Average
Executives	6	-	(1)	2	7	6.5
Middle managers	18	4	(3)	-	19	18.5
Administrative staff	36	8	(3)	(2)	39	37.5
Total employees	60	12	(7)	-	65	62.5
Seconded in	12	1	-	-	13	12.5
Seconded out	(1)	-	-	-	(1)	(1.0)
Tot. employees and seconded	71	13	(7)	-	77	74.0

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

10.3 Other administrative expenses: breakdown

Items/Sectors	**Total 31/12/2018**	**Total 31/12/2017**
IT Services (1)	8,000,851	8,700,879
Professional services (2)	1,913,425	1,527,604
Expenses for Company offices (3)	1,538,838	1,486,635
Contributions to Authorities (4)	652,230	759,890
Telematic and data transmission services	559,988	649,475
EMIR Compliance and Trade Repository (5)	479,724	503,224
Other expenses	457,344	457,169
Insurance costs	60,031	64,514
Corporate bodies operating costs	18,704	6,247
Total other administrative expenses	**13,681,135**	**14,155,637**

(1) This item includes assistance fees, rent and maintenance of hardware and software for information systems with relative third party suppliers.
(2) The item includes the costs of legal, tax, notary and auditing consultancy services provided by external professionals and expenses re-charged by Group companies for support services supplied during the year.
(3) Company office expenses refer to the costs of leasing the company headquarters in Rome and Milan and ancillary costs.
(4) The item mainly includes the CONSOB contribution of € 565,006 and the AGCM contribution of € 87,225.
(5) Includes all expenses incurred for the adjustment to EMIR regulations.

Section 12 - Net adjustments/write-backs on tangible assets - Item 180

This item amounts to € 211,715 as of 31 December 2018 (€ 244,051 in the preceding financial year).

12.1 Net adjustments/write-backs on tangible assets: breakdown

Assets/Income components	Depreciation (a)	Adjustments due to impairment	Write-backs (c)	**Net result (a+b-c)**
A. Tangible assets	211,715			**211,715**
A.1 own assets	211,715			**211,715**
- operating assets	211,715			**211,715**
Total	**211,715**	**-**	**-**	**211,715**

Section 13 - Net adjustments/write-backs on intangible assets - Item 190

This item amounts to € 1,410,571 (€ 1,730,471 in the preceding financial year).

13.1 Net adjustments/write-backs on intangible assets: breakdown

Assets/Income components	Depreciation (a)	Adjustments due to impairment	Write-backs (c)	Net result (a+b-c)
1. Intangible assets other than goodwill	1,410,571			1,410,571
1.1 own assets	1,410,571			1,410,571
Total	**1,410,571**	**-**	**-**	**1,410,571**

Section 14 - Other operating expenses and income - Item 200

This item amounting to € 2,179,995 (€ 1,533,811 in the preceding financial year) refers to expenses for € 26,209 and income for € 2,206,204.

14.1 Other operating expenses: breakdown

Items/Sectors	**Total 31/12/2018**	**Total 31/12/2017**
Negative rounding up	276	398
Exchange loss	25,898	12,261
Other non deductible costs	35	3,898
Total operating expenses (A)	**26,209**	**16,557**

14.2 Other operating income: breakdown

Items/Sectors	**Total 31/12/2018**	**Total 31/12/2017**
Sundry income (intercompany re-charging)	1,319,816	1,483,991
Other operating income	854,582	-
Exchange gain	3,548	37,329
Other income	28,258	29,048
Total operating income (B)	**2,206,204**	**1,550,368**
Total other operating expenses and income (B-A)	**2,179,995**	**1,533,811**

Other operating income primarily refers to income deriving from Central counterparty services supplied on an outsourcing basis, more specifically:

- € 217,500 to the Casablanca Stock Exchange;
- € 387,082 to the Austrian Central Counterparty;
- € 200,000 to Bursa de Valori in Bucharest.

Section 19 – Income taxes for the financial year on current operations – Item 270

This item amounts to € 23,349,157 (€ 22,414,028 in the preceding financial year).

19.1 Income taxes for the financial year on current operations: breakdown

	Total 31/12/2018	Total 31/12/2017
1. Current taxes (-)	23,224,102	22,400,865
2. Change in current taxes of previous years (+/-)	21,725	(50,641)
5. Changes in deferred taxes (+/-)	103,330	63,804
6. Taxes for the period (-) (-1+/-2+/-5)	23,349,157	22,414,028

Item 270 reports the total current taxes and the relevant decreases linked to the change in prepaid taxes in the income statement.

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

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

	Total 31/12/2018
Profit before taxes	**70,451,946**
Theoretical IRES	19,374,285
Effect of increases	166,508
Effect of decreases	(404,265)
Actual IRES	**19,136,528**
Irap	4,087,574
Adjustments of previous years	21,725
Deferred taxes	103,330
Actual IRAP	**4,212,629**
Total tax burden	**23,349,157**

Financial assets and liabilities subject to offsetting in the financial statements

As shown in the section on accounting policies, following discussion at Group level, it was decided to provide more information on the offsetting of financial assets and liabilities pursuant to IAS 32, paragraph 42 as from the financial statements for the year ended 31 December 2017.

The tables below provide the financial assets and liabilities that were offset in accordance with IAS 32, paragraph 42.

The 'Gross amount of assets' and 'Gross amount of liabilities' columns indicate the amounts of financial assets and financial liabilities, gross of offsets carried out in accordance with IAS 32, paragraph 42.

The "Amount of financial liabilities/assets cleared in the financial statements" column indicates the amounts that were cleared in accordance with IAS 32, paragraph 42.

The "Net amount of assets reported in the financial statements" and "Net amount of liabilities reported in the financial statements" columns show the net balances reported in the balance sheet.

Financial assets subject to offsetting

Items/Values	Total 31/12/2018			Total 31/12/2017		
	Gross amount (a)	Offset amount (b)	Net amount (c)=(a)-(b)	Gross amount (a)	Offset amount (b)	Net amount (c)=(a)-(b)
Derivative financial instruments (item 20)	20,350,679,930	14,932,854,687	5,417,825,243	42,746,890,150	36,246,691,492	6,500,198,658
Government bonds (item 30)	8,191,992	3,096,232	5,095,760	7,357,261	1,210,137	6,147,124
Equity instruments (item 30)	1,539,747	994,363	545,384	26,992,039	19,127,598	7,864,441
Receivables from repo transactions for CCP activities (item 60)	175,835,811,266	23,083,318,487	152,752,492,779	135,242,603,944	24,916,882,004	110,325,721,940
Total	**196,196,222,935**	**38,020,263,769**	**158,175,959,166**	**178,023,843,394**	**61,183,911,231**	**116,839,932,163**

Financial liabilities subject to offsetting

Items/Values	Total 31/12/2018			Total 31/12/2017		
	Gross amount (a)	Offset amount (b)	Net amount (c)=(a)-(b)	Gross amount (a)	Offset amount (b)	Net amount (c)=(a)-(b)
Derivative financial instruments (item 30)	20,350,679,930	14,932,854,687	5,417,825,243	42,746,890,150	36,246,691,492	6,500,198,658
Government bonds (item 40)	8,191,992	3,096,232	5,095,760	7,357,261	1,210,137	6,147,124
Equity instruments (item 40)	1,539,747	994,363	545,384	26,992,039	19,127,598	7,864,441
Receivables from repo transactions for CCP activities (item 10)	175,835,811,266	23,083,318,487	152,752,492,779	135,242,603,944	24,916,882,004	110,325,721,940
Total	**196,196,222,935**	**38,020,263,769**	**158,175,959,166**	**178,023,843,394**	**61,183,911,231**	**116,839,932,163**

The assets and liabilities subject to offsetting are:

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

Guarantees and commitments

These are represented by the following items:

- "Third parties' securities deposited as collateral" (€ 3,401.6 million) show the nominal value of Government bonds (€ 1,885.6 million), shares deposited in order to guarantee short call positions in options (€ 3.2 million) and guarantees for the New MIC market (€ 1,512.8 million) deposited by CCP members.

- "Securities to be received/delivered for transactions to be settled", for € 634.6 and € 633.0 million, respectively; these represent the nominal value of open positions on the markets in which CC&G provides central counterparty activity, including securities withdrawn in the framework of the TS2 and ICSD settlement systems; the difference between the amount of securities to be received and those to be delivered represents what was already withdrawn in the TS2 and ICSD Links settlement process.

Long Term Incentive Share Plan

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

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

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

  The performance conditions are measured as follows:
  a. for 50% of the shares awarded: the number of shares to be awarded upon expiration of individual plans shall be determined on the basis of the positioning of the Total Shareholder Return (TSR) or the rate of return of LSEG shares in the accrual period calculated assuming the reinvestment of the dividends on the same shares;
  b. for the remaining 50% of the shares awarded: the number of shares to be awarded on expiration of individual plans shall be determined on the basis of the growth of EPS or the basic adjusted profit per LSEG share.

- **Matching shares** have been activated for a small group of executives and senior managers and allows them to invest personal resources, up to a maximum of 50% of the value of the basic salary after tax, in shares of the London Stock Exchange Group (so-called "investment shares") and receive a bonus (matching award) if certain performance conditions (TSR-EPS) are met after a period of three years from the grant date. The shares involved in the matching award will be finally awarded and transferred to the employee upon expiration of the third year after the date of assignment, provided, however, that the employee has held the "investment shares" and the employment relationship is still in existence.

- *The **performance related plan** was conceived to reward a selected group of highly performing employees showing a high potential.* As a participant in the plan, the employee is able to receive the bonus in the form of two different components:

  - the **restricted share award** that provides for the award of ordinary shares of LSEG Group to members if the performance conditions are achieved;

  - or the **share option award** in the form of option with an exercise price (i.e. the price that a member must pay for taking possession of a single share), and this, too, is subject to the same performance conditions as the restricted share award.

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

The performance conditions are measured as follows:

1. for 50% of the shares awarded: the number of shares to be awarded upon expiration of individual plans shall be determined on the basis of the positioning of the Total Shareholder Return (TSR) or the rate of return of LSEG shares in the accrual period calculated assuming the reinvestment of the dividends on the same shares;
2. for the remaining 50% of the shares awarded: the number of shares to be awarded upon expiration of individual plans shall be determined on the basis of the positioning of the Group costs compared to the specific budget targets.

- The **SAYE** (Save As You Earn) plan provides for the award of options on shares in favour of employees. At the time of award of the options the employee has the right to agree to participate in a saving plan, managed by the Yorkshire Building Society in the United Kingdom, which provides for monthly withdrawals from net salary for a period of three years starting from the implementation of the saving plan. The amounts paid in the three-year time-frame will bear interest. Upon expiration of the three-year term ("Maturity Date"), the plan allows for the purchase of ordinary shares of the London Stock Exchange Group Plc at a determined price. If conversely, upon expiration of the period, the value of the shares did not increase, the employee shall not be bound to purchase them and may simply withdraw the whole amount set aside for him/her, increased of accrued interest, if any.

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

The overall cost as of 31 December 2018 for the award of shares and options on shares is equal to € 404,154 inclusive of the severance indemnity.

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

Number of shares	Share Options	SAYE	LTIP	**Totale**
Opening balance 01/01/2018	0	4,690	72,195	**76,885**
Granted shares		2,300	9,900	**12,200**
Transferred shares				**0**
Exercised shares		(2,102)	(27,483)	**(29,585)**
Forfeited shares			(8,413)	**(8,413)**
Lapsed shares				**0**
End closing balance 31/12/2018	**0**	**4,888**	**46,199**	**51,087**

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

2018 The fair value of share awards and share options granted during the year was determined using a stochastic valuation model. The key assumptions used in the valuation were as follows:

	SAYE Sharesave Plan	LSEG LTIP Performance Shares			LSEG LTIP Matching Shares	Restricted Share Award Plan	
Date of grant	17-May-18	26-Apr-18	08-Aug-18	02-Oct-18	26-Apr-18	26-Apr-18	02-Oct-18
Grant date share price	£44.98	£42.97	£45.10	£45.19	£42.97	£42.97	£45.19
Expected life	3.3 years	3 years	3 years	3 years	3 years	0.8 years to 2.8 years	1.0 year to 1.7 years
Exercise price	£34.37 to £34.67	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield	1.15%	1.60%	1.53%	1.54%	1.60%	1.60%	1.54%
Risk-free interest rate	0.98%	0.94%	0.84%	0.91%	0.94%	0.73% to 0.92%	0.75% to 0.80%
Volatility	25%	25.30%	24.78%	23.60%	25.30%	16.6% to 25.4%	16.3% to 17%
Fair value	£12.81 to £12.99	-	-	-	-	£41.05 to £42.39	£44.02 to £44.50
Fair value TSR	n.a.	£17.37	£16.18	£14.95	£17.37	n.a.	n.a.
Fair value EPS	n.a.	£40.96	£43.08	£43.15	£40.96	n.a.	n.a.

IFRS 2 - paragraphs 46 and 47

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

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

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

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

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

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

Relationships with related parties

Intercompany relations

The following table shows details of "non-atypical" transactions during the year with related parties and the equity balances as at 31 December 2018 including them.

(Amounts in Euro)

	REVENUE	RECEIVABLES	ASSETS
Borsa Italiana Spa			
- Work in Progress			12,155
- Custody, administration and Settlement	49,008		
London Stock Exchange Plc			
- Fees for services	984,123		
- Rendering services and costs recharge		50,794	
- Work in Progress			1,980
- Settlement		492,060	
LSEG Business Services Ltd			
- Fees for services	48,000		
- Work in Progress			1,296
- Settlement		24,000	
LSEG Post Trade Services Limited			
- Custody, administration and Settlement	131,921		
- Settlement		131,921	
Monte Titoli Spa			
- Fees for services	107,360		

	COSTS	PAYABLES
BIt Market Services Spa		
- Fees for services	16,760	
Borsa Italiana Spa		
- Fees for services	1,814,587	
- Seconded personnel	864,000	
- Rendering services and costs recharge		237,869
EuroMTS Ltd		
- Fees for services	25,000	
London Stock Exchange Group Holdings Italia Spa		
- Rentals and service charges	1,075,025	
- Tax consolidation		783,913
- Fees for services	30,815	
London Stock Exchange Group Plc		
- Rendering services and costs recharge		59,112
- Share Scheme		344,984
- Insurance	60,031	
- Management fees Recharge	232,730	
London Stock Exchange Plc		
- Rendering services and costs recharge		1,935
- Management fees Recharge	237,913	
LSEG Business Services Ltd		
- Fees for services	235,058	
- Rendering services and costs recharge		1,242
Monte Titoli Spa		
- Fees for services	3,758,690	
- Seconded personnel	162,068	
- Rendering services and costs recharge		359,187
Società per il mercato dei titoli di stato Spa		
- Fees for services	2,400	

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

Remunerations of the members of corporate bodies

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

Directors and Key Managers	2,222,458
Auditors	84,558

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

a. Benefits to short-term employees	1,710,192
b. Post-employment benefits	50,081
c. Other long-term benefits	-
d. Severance benefits	75,563
e. Payments based on shares	258,622
Total	**2,094,458**

Plan	Number of shares	Date of award
London Stock Exchange Matching Share Award	3,126	10/04/2017
London Stock Exchange Matching Share Award	1,488	26/04/2018
London Stock Exchange Matching Share Award	6,578	18/03/2016
London Stock Exchange performance share award	3,817	26/04/2018
London Stock Exchange performance share award	9,994	17/03/2016
London Stock Exchange performance share award	7,688	03/04/2017

Directors of the Companies of the Group receive no remuneration. The amount relating to the key managers represents the overall cost borne by the Company, inclusive of any and all supplemental elements. The key managers category includes managers with strategic responsibilities, i.e. with powers and responsibilities relating to planning, management and control of the business activities (Managing Director and General Manager).

No loans have been granted and no guarantees were issued in favour of Directors and Statutory Auditors.

Management and coordination

It is pointed out that as of the date of the financial statements for the year ended 31 December 2018, the company is subject to the management and coordination of London Stock Exchange Group Holdings Italia S.p.A.

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

The essential data of the Parent Company London Stock Exchange Group Holdings Italia S.p.A shown in the summary statement required by Section 2497-bis of the Italian Civil Code was extracted from the relevant financial statements for the financial year closed on 31 December 2017.

For an adequate and complete understanding of the equity and financial situation of London Stock Exchange Group Holdings Italia S.p.A at 31 December 2017, as well as of the economic results obtained by the Company in the financial year closed on that date, reference is made to the reading of the financial statements which, complete of the report prepared by the auditing firm, is available in the formats and manner provided by the law.

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017	
(Amounts in €/1000)	**31-dic-17**
Assets	
Non-current assets	1,441,314
Totale attività correnti	10,371
TOTAL ASSETS	**1,451,685**
Liabilities	
Non-current liabilities	195,808
Current liabilities	85,098
TOTAL LIABILITIES	**280,906**
NET ASSETS	**1,170,779**
EQUITY	
Capital reserves attributable to the Company's equity holders	
Share capital	350,000
Reserves	681,385
(loos)/profit of the period	139,394
TOTAL EQUITY	**1,170,779**

STATEMENT OF COMPREHENSIVE INCOME AT DECEMBER 31, 2017

(Amounts in €/1000)	31-dic-17
Revenues	160,257
TOTAL REVENUES	**160,257**
Employee's costs	1,088
Service costs	10,780
Depreciations and amortization	1,312
Operating expenses	216
TOTAL OPERATING COSTS	**13,396**
Finance income	9
Financ expenses	8,287
PROFIT BEFORE TAX	**138,583**
Taxes	811
NET INCOME	**139,394**
Other elements with an impact on Shareholders' Equity	17
TOTAL NET INCOME	**139,411**

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

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

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

Document relating to plans on security

The "simplification decree", published in the Official Bulletin of the Republic of Italy No 33 of 09/02/2012 actually eliminated the obligation to prepare an updated planning document on security (D.P.S.) on or before 31 March every year, however, it did not relieve the Data Controller of the processing of Sensitive Data from fulfilling all the prescriptions contained in Article 34 of Legislative Decree 196/2003 and its Annex B.

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

a) electronic authentication;

b) adoption of management procedures of authentication credentials;

c) utilization of an authorisation system;

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

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

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

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

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

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

<u>Capital requirements</u>

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

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

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

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

Moreover, pursuant to Article 35 of Delegated Regulation No 153 (ESMA), the central counterparty must hold and show separately in its balance sheet, an amount of equity resources ("skin-in-the-game") to be used as a defence line in the event of default by the members

("Default Waterfall"). Such an amount is calculated as 25% of the minimum capital (TCR). The CCP shall notify the competent authority immediately if the amount of the Skin in the Game to be held for Default Waterfall decreases below the mandatory minimum amount.

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

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

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

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

From a management standpoint, the calculation of the Regulatory Capital of Cassa di Compensazione e Garanzia S.p.A. - which takes into account business risk, market risk, counterparty risk and operational risks - recorded at 31 December 2018, a "skin-in-the-game" equal to € 21,649,375 (25% of the total regulatory capital equal to € 86,597,500), an amount that is 12% higher compared to the same figure at 31 December 2017, equal to € 19,404,893.

The calculation of the Regulatory Capital at 31 December 2018 is shown below, from which the value of the "skin-in-the-game", the Internal Buffer and the second "skin-in-the-game" is inferred.

Total Shareholders' Equity *(Amounts in euro)*	**31/12/2018**
Share capital	33,000,000
Reserves (*)	84,777,899
Net profit allocated to reserves	2,552,789
Total Shareholder's Equity	**120,330,688**
Intangible assets	(2,393,859)
AFS and FTA reserves	5,456,809
Share Awards	(2,082,568)
Total Shareholder's Equity after prudential filter	**121,311,070**
Skin in the Game (SIG)	21,649,375
Total "NET" Shareholder's Equity	**99,661,695**

Capital Requirement as per art. 16 EMIR Regulation *(Amounts in Euro)*	**31/12/2018**
Winding down/restructuring requirement	11,482,547
Credit, Market and Counterparty risk	54,797,163
Operational risk	14,576,517
Business Risk	5,741,273
Total Capital Requirement (TCR)	**86,597,500**
Notification threshold (10%)	8,659,750
TCR + Notification threshold	**95,257,250**
Internal Buffer (IB)	1,000,000
Second Skin in the Game (SIG2)	1,500,000
TCR + Notification threshold + SIG2 + IB	**97,757,250**

(*) this item includes restricted reserves equal to € 21,904,893 linked to the "skin-in-the-game", the Internal Buffer and to the second "skin-in-the-game".

Shareholders' Equity available pursuant to the applicable Provisions of Law, at 31 December 2018 amounts to € 121,311,070 (on an overall amount of Shareholders' Equity on the same date equal to € 120,330,688 including the profit for the year allocated to Reserves), having sterilised the impact of the reserves from First Time Adoption, Financial Assets at fair value through OCI, IAS 19 reserves and Share Awards, as well as the entire amount of intangible assets present under assets in the Balance Sheet on the date of these financial statements.

Following the requirements of Regulatory Capital, the Company has calculated, according to the parameters provided by EU Regulation No 152/2013 of the Commission of 19 December 2012:

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

These risks, evaluated on the basis of the corporate structure and solidity with respect to the market, have been calculated at € 86,597,500 (Regulatory Capital). A 10% notification threshold was then applied to such risks, pursuant to Article 1 of the above-mentioned EU Regulation.

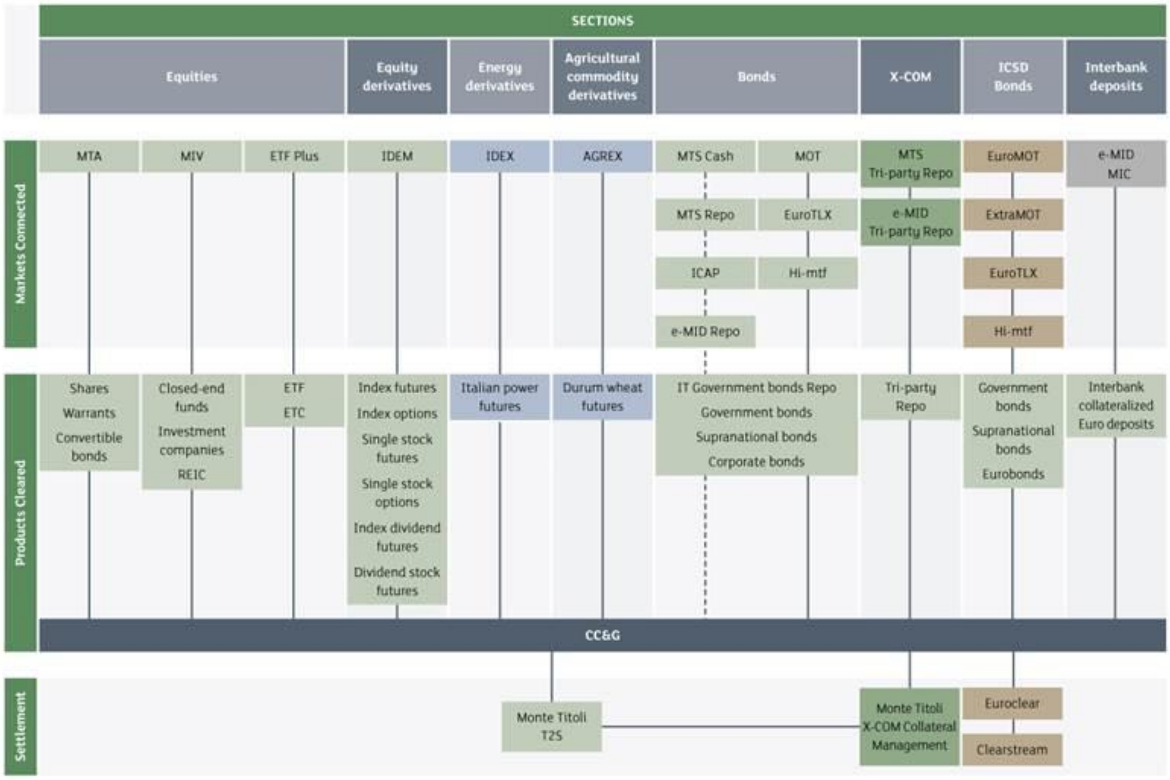
The value of the Regulatory Capital alone, excluding the notification threshold, was also subject to a 25% guarantee threshold (skin-in-the-game) which will be allocated (following the approval of the Shareholders' Meeting of 29 April 2019) to a restricted reserve of up to € 21,649,375. The Internal Buffer reserve, equal to € 1,000,000 was allocated to a restricted reserve by the Shareholders' Meeting of 6 November 2013. The second "skin-in-the-game" reserve, as per resolution of the Board of Directors' meeting of 2 December 2015, was defined as € 1,500,000, and allocated to a restricted reserve by the Shareholders' Meeting of 13 April 2016.

Management of risks

Introduction

Cassa di Compensazione e Garanzia S.p.A. manages the central counterparty (CCP) guarantee system on a broad range of markets: shares, option rights, warrants and convertible bonds listed on MTA, ETF and ETC listed on ETF Plus, futures and options on single stocks and index listed on IDEM Equity, futures on electricity listed on IDfEX, futures on durum wheat listed on AGREX, closed end funds, investment companies and real estate investment companies listed on MIV, Italian Government Bonds listed on MTS, EuroMTS, BrokerTec and Repo e-MID, Italian Government Bonds and bonds listed on MOT, EuroTLX and Hi-MTF. Moreover, CC&G S.p.A. offers its services on the collateralised interbank market MIC.

CC&G avoids counterparty risk by becoming a contractual counterparty itself to members in organised markets and single Stock Exchange Group guarantor of the good outcome of the contracts acting as buyer in relation to the sellers and, vice-versa, operating in the capacity as seller in relation to the buyers.



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

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

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

1. Membership requirements

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

2. Margin system

The margin system represents a fundamental system of risk management adopted by CC&G.

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

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

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

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

Fundamental principles applying to equity and equity derivatives sections: MarS

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

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

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

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

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

Fundamental principles governing the bond section: MVP

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

Fundamental principles governing the energy derivatives section: MMeL

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

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

Fundamental principles governing the derivatives section on agricultural commodities: MMeG

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

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

Collateral

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

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

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

3. Default funds

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

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

As of 31 December 2018 the default funds were made up as follows:

- Equity and equity derivatives sections: € 800 million;
- Bond section: € 4,600 million;
- Energy derivatives section: € 2.3 million;
- Agricultural commodities derivatives section: € 100,000;
- Default funds section for the MIC: € 4.3 million.

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

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

4. Equity and financial resources

At 31 December 2018, the shareholders' equity of CC&G equals € 164.9 million. Moreover, CC&G has provided adequate credit lines negotiated with the main Italian banks, in order to cope with the needs linked to the management of the settlement phase (T2S and ICSD).

Insolvency proceedings against a member

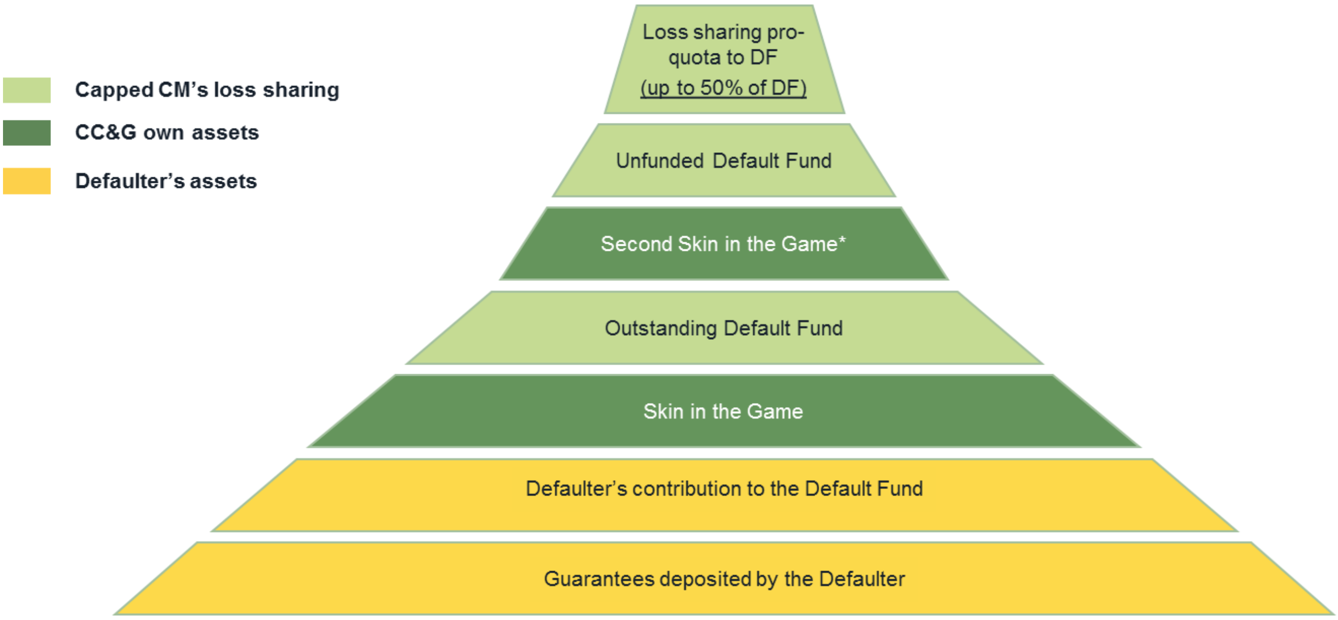
In case of default of a clearing member, for covering the losses CC&G uses the following resources:

a) the margins deposited by the defaulting member;
b) the contribution to the default fund of the defaulting member;

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

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

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



The amount of the Skin-in-the-game, corresponding to 25% of the minimum regulatory capital is € 21,649,375 as of 31 December 2018.[1]

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

CC&G has developed a recovery plan in compliance with the guidelines defined in the report prepared by CPMI IOSCO "report on recovery of financial market infrastructures" published in October 2014 and in the document "principles for financial markets infrastructures (PFMIs)" published in April 2012.

The objective of the recovery plan is to define the information and procedures necessary to allow CC&G to continue to provide its critical services even in the remote hypothesis in which its survival is threatened. The recovery plan has been structured in such a way as to allow CC&G, its Participants and all their stakeholders to overcome these extreme circumstances and

[1] This amount, resulting from the calculation of the regulatory capital at 31/12/2018, as shown in the current proposed financial statements, following approval by the Board of Directors' Meeting and the Shareholders' Meeting, will replace the preceding value of € 19,404,893.

increase the possibility that the most appropriate tools to cope with these stress conditions will be used. This reduces the risk that the effectiveness of recovery actions will be diminished by a climate of uncertainty.

CC&G has identified its 'critical' services, i.e. those services which ensure normal functioning of markets served by CC&G and the safeguarding of financial stability. Potential scenarios that could prevent the CCP from running normally were consequently identified. Based on the scenarios identified, CC&G has included the description of the scenarios in the recovery plan, the events that could trigger these scenarios, the list of preventive controls that CC&G uses to monitor these events, the financial/organisational impacts of the scenarios on the CCP and its members and the measures to be implemented in the event that these scenarios occur.

Insolvency proceedings against a special member (interoperable CCP)

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

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

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

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

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

<u>MIC guarantee system</u>

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

a) membership procedures;

b) suspension, exclusion and withdrawal from the system;

c) netting and guarantee of contracts concluded on the market and the settlement procedures;

d) rules governing guarantees;

e) management of the default procedures of the member.

Participants in the MIC market are banks, which comply with the rules set out in the "Regulation of the MIC guarantee system in force since 19 September 2017" available on the Company's website.

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

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

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

Definition of risks

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

(i) country risk

(ii) market risk

(iii) credit risk

(iv) issuer risk

(v) liquidity risk

(vi) interest rate risk

(vii) exchange risk

(viii) operational risk

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

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

Country risk

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

For the purpose of mitigating such risk, CC&G limits its investments to securities issued by sovereign countries of the European Union in possession of a qualified rating on the basis of the "SRF" (Sovereign Risk Framework) method adopted for the monitoring and management of country risk.

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

Market risk

The risk that CC&G may suffer losses as a result of changes in value of the financial instruments traded on the markets for which the Company exercises its central counterparty function or changes in value of the financial instruments in which the Company invested the margins acquired from the members or its own resources is referred to as market risk.

a) Financial instruments traded on markets for which the Company exercises its central counterparty function.

In carrying out its typical activity as a central counterparty, CC&G does not incur any market risks since the positions assumed as buyer and seller in relation to all the other counterparties that operate on guaranteed markets, are balanced with respect to amounts, maturities and prices. In case of a member default the risk is mitigated by the collection of the guarantees represented by initial margins and default funds.

b) Investments in financial instruments of margins, deposits of default funds or own resources.

The Company's activity is governed by EU Regulation 648/2012[1] on OTC derivative instruments, central counterparties and trade repositories, subsequently supplemented by EU Delegated Regulation No 153/2013[2] issued concerning technical standards related to the requirements for central counterparties.

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

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

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

Credit risk

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

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

b) at which amounts of money have been deposited from margins, default funds contributions or own resources. The risk is mitigated by strict limits specified in the CC&G Investment Policy for managing cash resources, and an internal method to assess the investment counterparty's creditworthiness.

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

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

For trade receivables and assets deriving from contracts, CC&G follows the approach adopted by the LSEG Group: In particular, the Group adopts a simplified approach to the calculation of expected losses. It consequently does not monitor credit risk, but rather fully recognises the expected loss at each reference date. The Group has prepared a matrix system based on historic information, which is revised in view of forecast elements with reference to specific types of debtors and their economic context, and is used as a tool to determine expected losses.

CC&G considers all financial assets measured at amortised cost and classified among the best credit rating categories to be a low credit risk. This refers to all its cash and receivables from the Central Bank.

CC&G considers a financial asset to be in default when the contract-based payments are overdue by 2 years. In some cases, CC&G could also consider a financial asset to be in default when internal or external information indicates that it is improbable for the Company to fully recover the contract-based amounts, prior to having reviewed the guarantees on the credit it holds. A financial asset is eliminated when there is no reasonable expectation of recovering the contract-based financial flows.

For assets represented by debt instruments measured at fair value recognised in OCI, CC&G applies the simplified approach permitted for low credit risk assets. At each financial statements' reporting date, the Group assesses whether it considers the debt instrument to have a low credit risk by using all the information available that can be sourced without excessive costs or effort. In conducting this assessment, CC&G monitors the debt instrument's credit rating. Financial assets represented by debt instruments held by CC&G measured at fair value and recognised in OCI include only listed bonds classified in the best credit rating categories, and consequently are considered as low credit risk investments. CC&G policy measures the expected losses over the next 12 months on these instruments year-on-year.

Nonetheless, when there is a significant increase in credit risk, the Group fully recognises the expected losses referring to the exposure's residual duration. CC&G uses the leading Agency ratings both in determining whether the debt instrument's credit risk has increased significantly, and to estimate the expected losses referring to the exposure's residual duration.

Issuer risk

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

Liquidity risk

The liquidity risk is the risk that the Company is unable to satisfy its payment obligations on the dates these fall due.

With regard to liquidity, the Company, in addition to the obligations deriving from its CCP core business, must take into account those deriving from its participation in the "Target II" securities settlement process managed by Monte Titoli and the securities settlement process managed by the "ICSDs" through Euroclear.

The monitoring of the liquidity risk, in ordinary conditions as well as stress conditions, is performed according to the provisions of the liquidity plan approved by the Board of Directors in line with the EMIR/ESMA regulatory requirements.

The mitigation factors of these risks provided by the liquidity plan comprise the following:

- the right to access intraday re-financing at the Central Bank;
- the availability of collateralised and non collateralised credit lines, granted by leading commercial banks;
- the option to enter into financing repurchase agreements with qualified counterparties in the tri-party platforms of Euroclear and Clearstream.

Interest rate risk

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

At 31 December 2018 the Company remunerates, with the reference parameter of the short-term rate "EONIA" -30 bps the initial guarantee margins and "EONIA" -25 bps the members' deposits for the default funds.

Any derivatives, such as interest rate swaps, may be used exclusively for hedging the risk. As of 31 December 2018 no derivative transactions appear to be in existence.

From the standpoint of loans and/or investments, the Company has no loans in existence. Nonetheless, at 31 December 2018, a repo for a loan was active for an amount of € 460,000,000.

Exchange rate risk (FX risk)

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

Operational risk

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

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

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

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

a) operations are guaranteed by an architectural configuration that envisages availability in two separate Data Centres at a distance of over 500 Km, linked by high-speed back-up lines and based on distinct Carriers, where the central processing systems and cyber connectivity and security devices are installed. Both centres have infrastructure with the same configuration, data aligned in real time and are permanently managed and maintained remotely by CC&G specialists from the BC&SM section and relevant SOC (Security Operations Centre);
b) the architecture provides a re-start option in disaster recovery situations within two hours;
c) disaster recovery and business continuity tests are conducted at least once a year;
d) external suppliers are selected according to the aforementioned Guidelines and are subject to specific SLA checks.

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

Rome, 22 March 2019

for the Board of Directors
The Chairman
Renato Tarantola

CASSA DI COMPENSAZIONE E GARANZIA S.p.A.

Registered office in Rome - Via Tomacelli 146

Fully paid-up share capital € 33,000,000

Tax identification and registration number

in the Companies Register of Rome no. 04289511000

Company subject to the management and coordination of

London Stock Exchange Group Holdings Italia S.p.A.

BOARD OF STATUTORY AUDITORS REPORT TO THE SHAREHOLDERS' MEETING CONVENED TO APPROVE THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018, PURSUANT TO ART. 2429, PARAGRAPH 2 OF THE ITALIAN CIVIL CODE

Introduction

During the financial year ended 31 December 2018, the Board of Statutory Auditors conducted the functions stipulated under Art. 2403 et seq. of the Italian Civil Code. The legal audit is entrusted to the auditing firm EY S.p.A.
This report was approved on a collegial basis and with enough time to be filed at the Company's registered office within 15 days prior to the date set for the Shareholders' Meeting called to approve the Financial Statements commented on.
The formulation of this report was based on the provisions set by law and Regulation 7.1 of the "*Board of Statutory Auditors Code of Conduct - Principles of conduct referring to unlisted companies Board of Statutory Auditors*", issued by the Italian National Council of Accountants (CNDCEC).

Knowledge of the company, risks assessment and report on the tasks assigned

Given the consolidated knowledge that the Board of Statutory Auditors has regarding the Company and with regard to:
i) the type of activity conducted;
ii) the Company's organisational and accounting structure;

also taking into consideration the size and problems of the business, the "planning" stage in the supervisory function - where an assessment is made of the intrinsic risks and critical aspects referring to the aforementioned two parameters - was implemented based on the information already acquired over time.

It was therefore possible to confirm that:
- the core activity conducted by the Company is consistent with what is set out in the corporate purpose, and has not changed during the period in question;
- the organisational structure, the computer equipment and human resources utilised appear adequate for the business.

This report therefore summarises the activity regarding the disclosure required by Art. 2429, paragraph 2 of the Italian Civil Code, and more specifically:
- on the results for the period;
- on the activities undertaken to comply with the duties stipulated by legislation;
- on compliance and the proposals regarding the financial statements;
- on any complaints received by shareholders pursuant to Art. 2408 of the Italian Civil Code.

From a time frame perspective, the activities conducted by the Board of Statutory Auditors referred to the entire financial year, during which meetings were duly held pursuant to Art. 2404 of the Italian Civil Code. Minutes were duly prepared for these meetings, which were then signed to confirm their unanimous approval.

Activities carried out

During the periodic verification carried out, the Board of Statutory Auditors took note of developments in the Company's activities, paying close attention to any contingent and/or extraordinary problems, so as to identify their economic and financial impact on the results for the period and the asset structure.
The Board of Statutory Auditors made a periodic assessment regarding the adequacy of the corporate organisational structure and any changes in relation to the minimum requirements envisaged by the Company's performance.
In its capacity as the "Internal Control and Legal Audit Committee", established pursuant to Italian Legislative Decree No. 39/2010 and Art. 7 EMIR Delegated Regulation No. 153/2013, the Board of Statutory Auditors carried out the supervisory functions envisaged under Art. 19.
Relations with personnel operating in the Company and with the Auditors were based on reciprocal collaboration with regard to the roles each is assigned, with the Statutory Auditors Board's role duly clarified.
It was noted that the level of technical expertise of internal administrative staff responsible for recording management events was adequate in relation to ordinary corporate events, and they can be deemed to have sufficient knowledge regarding corporate problems.
In the scope of the coordination function with other supervisory bodies, we met with the Supervisory Board and received their periodic reports. Based on our meetings and the aforementioned reports, no critical aspects emerged concerning the correct implementation of the organisational model, which would require mentioning in this report.
The information required by Art. 2381, paragraph 5 of the Italian Civil Code was provided by the CEO.
In terms of Art. 2497 et seq. of the Italian Civil Code, the Company is subject to the management and coordination of London Stock Exchange Group Holdings Italia S.p.A., which in turn, is indirectly controlled by London Stock Exchange Group Plc.

In respect of what it was possible to discern during the activities undertaken during the financial period, the Board of Statutory Auditors can confirm that:

- the decisions taken by the Shareholders' Meeting and the Board of Directors complied with legislation and the Articles of Association, and were not manifestly imprudent or such that they would definitively compromise the integrity of company assets;
- sufficient information was obtained regarding management performance and its foreseeable development, and on the more significant transactions undertaken by the Company in terms of size and characteristics;
- the transactions put in place were compliant with the law and Articles of Association, and did not potentially conflict with resolutions taken by the Shareholders' Meeting or Board of Directors, or were such that they would compromise the integrity of company assets;
- there are no specific comments regarding the adequacy of the Company's organisational structure, or the adequacy of the administrative and accounting system, or even on the reliability of the latter to provide a correct representation of management events;
- we did not find any atypical and/or unusual transactions with Group companies, third parties or with related parties. The information provided to us by the Board of Directors was deemed adequate, referring to intercompany transactions and those with related parties. More specifically, these transactions are deemed to be related and inherent to the achievement of the corporate purpose and are consistent and in accordance with company interests;
- no additional significant facts emerged during the supervisory activities that would require mention in this report;
- no interventions were made regarding omissions by the Board of Directors in terms of Art. 2406 of the Italian Civil Code;
- no complaints were received pursuant to Art. 2408 of the Italian Civil Code;
- no complaints were made pursuant to Art. 2409, paragraph 7 of the Italian Civil Code;
- the Board of Statutory Auditors issued no opinions required by law during the period.

Remarks and proposals regarding the financial statements and their approval

The draft financial statements for the year ended 31 December 2018 were approved by the Board of Directors and prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

The Report on Operations was prepared by the Board of Directors.

These documents were sent to the Board of Statutory Auditors with enough time to be filed at the Company's registered office, accompanied by this Report, and this irrespective of the deadline stipulated under Art. 2429, paragraph 1 of the Italian Civil Code.

The legal audit is entrusted to the auditing firm EY S.p.A., which has prepared its own report pursuant to Art. 14 of Legislative Decree 39 of 27 January 2010. This report records no significant deviations, or negative opinions, or stated that it was impossible to express an opinion or provide disclosures. The opinion issued was positive, and confirms that the financial statements at 31 December 2018 are compliant with the International Financial Reporting Standards adopted by the European Union.

The draft financial statements were examined, and the following additional information is provided in this regard:

- attention focused on the layout of the draft financial statements, their general compliance with the law with regard to their formulation and structure, and in this respect there are no remarks that require mention in this report;

- the explanatory notes adequately represent the transactions with related parties, highlighting the main economic-financial aspects;
- it was confirmed that the preparation of the Report on Operations complied with legislation, and in this respect there are no remarks that require mention in this report;
- it was verified that the financial statements corresponded with the facts and information available on the basis of the Board of Statutory Auditors duties, and in this respect there are no additional remarks to be made.

Results for the period

The net result confirmed by the Board of Directors relating to the year ended 31 December 2018 is positive for € 47,102,789.

Conclusions

Based on what is set out above and the Board of Statutory Auditors knowledge and periodic verification conducted, the Board unanimously considers that there are no impediments to your approval of the draft financial statements for the year ended 31 December 2018, as prepared and duly proposed by the Board of Directors.

Milan, 4 April 2019

The Chairman
(Roberto Ruozi)

The Statutory Auditor
(Fabio Artoni)

The Statutory Auditor
(Mauro Coazzoli)