

# REPORT ON OPERATIONS AND FINANCIAL STATEMENTS

AT 31 DECEMBER

# 2016

Courtesy translation



Adriatic LNG



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# OPERATING REPORT



This Operating Report is prepared in compliance with article 2428 of the Italian Civil Code.







## Past, present and future

During 1997 and 1998 Edison Gas commenced a feasibility study for the construction of an LNG terminal in the Northern Adriatic Sea. The positive outcome of these studies led the Company to begin the procedures to obtain the necessary authorizations. On 15 December 2000, the company Edison LNG S.p.A. was incorporated and in Doha - Qatar, on 20 November 2003, the Participation Agreement was signed, whereby Qatar Petroleum and ExxonMobil expressed their intent to become Quotaholders.

On 2 May 2005, the various agreements were finalized and Qatar Terminal Limited and ExxonMobil Italiana Gas S.r.l. became Quotaholders of Edison LNG S.r.l. and the Company changed its name to Terminale GNL Adriatico S.r.l.

Terminale GNL Adriatico S.r.l. has designed, built and installed offshore of Porto Levante (in Rovigo province), about 15 kilometers off the coastline, a liquefied natural gas (LNG) regasification terminal with a nominal capacity of 8 billion cubic meters/year - 775 million cubic feet per day, that can cover about 10% of the national demand for natural gas - the first concrete Gravity Based Structure (GBS) in the world for LNG regasification. The regasification terminal project included construction of a 40 km gas pipeline, part underwater and part onshore, and the Cavarzere Metering Station.

The offshore regasification terminal is considered a state-of-the-art structure in terms of innovative design and technology and in 2010 won the "Platts Global Energy Award" in the category "Infrastructure Project of the Year". It represents a strategic ad-

dition to Italy's energy infrastructure, guaranteeing a safe and reliable source of energy, thereby increasing and diversifying Italy's energy supply sources. The high standards of management and control implemented by the Company ensure its operations (berthing of LNG tankers, LNG unloading, regasification measurement and the continuous gas supply into the national grid) are executed safely, reliably and with care for the environment.

The Adriatic LNG regasification terminal commenced commercial operations in the second semester of 2009. By the end of 2016, 490 LNG cargos had been discharged and terminal capacity utilization in 2016 was about 69%, significantly higher than the average utilization factor of LNG terminals in Europe.

Terminale GNL Adriatico S.r.l. is set up to operate until October 2052 under the fifty-year maritime concession issued by the Ministry of Transport and Infrastructure. To this end, the Company signed long-term commercial agreements with leading operators in the gas sector before the commencement of commercial operations, thereby allocating over 90% of the regasification capacity for the next 3 years, and approximately 80% of the capacity for the following 15 years.





# Company Management

Terminale GNL Adriatico S.r.l. (the Company) is managed pursuant to art. 2475 and following articles of the Italian Civil Code and Sections IV and V of the By-Laws, which govern the methods for appointment, duration of office, powers, meetings, and quorums for passing resolutions of the Board of Directors and the Statutory Auditors.

## Board of Directors

The members of the Board of Directors, appointed pursuant to Section IV article 20 of the By-Laws and following sections are, presently, the following:

### Chairman

Homoud Fahad Homoud Sultan Al-Qahtani

### Managing Director

Suresh Jagadesan

### Directors

Ali Khalaf Al-Kaabi  
Jos G. D. Evens  
Giovanni Murano  
Alistair G. Routledge  
Simon P. Younger

## Statutory Auditors

The Statutory acting Auditors, appointed pursuant to Section II article 6.2 (b) of the By-Laws, are the following:

### Chairman

Maurizio de Magistris

### Acting Auditor

Lorenzo De Angelis

### Acting Auditor

Piero Gennari





# Introduction

Dear Quotaholders,

The year 2016 was the seventh full year of commercial operations. The positive financial and operating results are combined with the quality of the infrastructure and the commitment of the organization to the highest standards of safety & health, environmental protection and business controls.

During the year, 64 LNG cargos were received, with unloaded volumes of 9.0 million cubic meters of LNG, 63 related to the Foundation Capacity agreement, with an exemption according to the procedures established by the Ministry of Economic Development and by the Regulatory Authority for Electricity, Gas and Water (AEEGSI), and coming from Ras Laffan Liquefied Natural Gas Company Limited II (RasGas II) in Qatar and 1 related to the National Gas Emergency Plan Peak Shaving service coming from Qatar. The Company delivered into

the national distribution grid a total of 5.5 billion cubic meters of gas, representing 8.7% of the gas imports to the Italian market and 8.0% of the total gas supply.

As far as the completion of terminal authorization is concerned, the competent authorities finalized all tests under their jurisdiction during 2016, and on 28th July 2016 the Ministry of Economic Development issued the final certification of completion of the terminal, pipeline and metering station.

## 2016 highlights

The Financial Statements at 31 December 2016 report net profit of 28,916,723.09 Euro. Additional key operating and financial data are reported in the following table:

		2016	2015	Abs. Change	% Change
<i>Safety, environmental and controls highlights</i>					
Total recordable incidents	[Number]	-	1	(1)	(100,0%)
Process Safety Incidents	[Number]	-	-	-	n.d.
Spills /Exceedences	[Number]	-	-	-	n.d.
CO <sub>2</sub> emissions	[Kton]	82	75	7	9%
<i>Financial highlights</i>					
Net profit	[kEuro]	28,917	30,868	(1,951)	(6%)
Income before taxes	[kEuro]	42,155	45,381	(3,226)	(7%)
Gross revenues	[kEuro]	235,729	262,653	(26,924)	(10%)
Gross operating margin	[kEuro]	118,377	121,396	(3,019)	(2%)
Net assets addition	[kEuro]	2,461	2,614	(153)	(6%)
<i>Operations highlights</i>					
LNG Cargos unloaded	[Number]	64	67	(3)	(4%)
Volumes of gas redelivered	[M Standard cubic meters]	5,508	5,576	(68)	(1%)
Regassification reliability	[%]	99.9%	99.7%	0.2%	0.2%





## Our commitment to safety, environment and community

The Company continues to enhance the integrated Safety, Security, Health and Environmental Management System (SHEMS) which is key to ensure the integrity of the operations and compliance with applicable regulations and industry standards. A number of specific initiatives have been developed in order to reinforce commitment to operations excellence. The Company's relentless pursuit of an incident-free workplace continued through 2016. Leadership and guidance is provided through the Company SHEMS Steering Committee, three site Safe Operating Committees (SOCs) at the terminal, shore base and Milan office and various Work-Site Safety Committee Meetings (WSSCs).

Following the approach that Adriatic LNG has always adopted, we continue to promote cooperation and dialogue with local communities, respect for the environment, and the development of sustainable resources.

Adriatic LNG is recognized as a reliable partner by local authorities, associations and NGO's and is actively involved in the economic and cultural life of the territory supporting several initiatives and events in

safety and health, social and educational areas, arts and music, amateur sports.

The Company is aimed to consolidate its positive reputation and strengthen its visibility at regional level.

The strong operational performance of 2016 reflects the investments made in the Company's facilities and organization, its values of safety, ethics, integrity and operational excellence. The Adriatic LNG terminal is recognized for the strategic role it plays in diversifying energy supply for Italy and Europe, in a safe and environmentally sensitive manner. The Company has established a sound foundation for reliable performance and is prepared to manage the challenges and opportunities deriving from the continuously evolving regulatory environment.

# THE ADRIATIC LNG REGASIFICATION TERMINAL: STATE-OF-THE-ART TECHNOLOGY AND REGASIFICATION PROCESS



The use of natural gas – which has long been recognized as the cleanest of the fossil fuels – began more than two thousand years ago when Chinese people started boiling sea water in order to make it good for drinking. It was only from the 9th century that people started to be aware of the potential of the gas as a source of light, heat and power generation.

LNG is liquefied gas composed primarily of methane. After extraction and elimination of impurities the gas is cooled to  $-162^{\circ}\text{C}$ . At this temperature the gas becomes liquid (LNG), reducing its volume 600 times. While in a liquid state, it can be stored in tanks, placed in LNG carriers and transported over long distances to the consumer end markets, where it is regasified and distributed.

The Adriatic LNG terminal has a very efficient process in which the heat required for LNG regasification comes from seawater, at its natural temperature, and by capturing waste heat, from the on-board power generation gas turbine exhausts, through an energy recovery cycle.

The Adriatic LNG terminal is the first offshore con-

crete structure in the world designed for the reception, storage and regasification of liquefied natural gas (LNG). The structure is 375 meters long, 115 meters wide, the main deck is 18 meters above sea level, and the flare stack extends 87 meters above the water line.

The terminal is located offshore of Porto Levante, in the northern Adriatic Sea, resting on the sea floor at about 15 km offshore of the Veneto coastline, providing a platform for the regasification facilities, utility systems and living quarters.

A 30 inch diameter 40-km long pipeline transports the gas to the Cavarzere Metering Station, in the province of Venice. Here, another pipeline, belonging to Infrastrutture Trasporto Gas (former Edison Stoccaggio), carries the gas a further 84 km to the national distribution grid entry point close to Minerbio, in the province of Bologna.



## The concrete structure

The main element of Adriatic LNG terminal is the large concrete structure (Gravity Based Structure or GBS) built with 90,000 cubic meters of concrete and 30,000 tons of steel frames, resting on the seabed at a depth of about 29 meters.

## LNG storage tanks

Inside the GBS there are two LNG storage tanks, each one with an operational capacity of 125,000 cubic meters, made of 9% nickel steel to withstand the extremely low temperatures needed for storage of LNG.

## The regasification plant

The regasification plant is located on top of the GBS, including four LNG Open Rack Vaporizers which use the heat naturally contained in the seawater, a Waste Heat Recovery LNG Vaporizer (WHRV), which uses heat from the gas turbine exhausts, two boil-off gas compressors, four pumps for withdrawing LNG from the storage tanks and five high-pressure booster pumps to send the gas to the vaporizers with enough pressure for the gas to flow through the pipelines, the metering systems and into the national grid.

Special unloading arms are installed on the GBS, designed to operate in a wide range of environmental conditions typical for an offshore terminal. The unloading arms transfer the LNG from the carriers to the storage tanks of the terminal.

The terminal also houses auxiliary equipment, such as the module for generation of electricity with gas turbines and the electrical and instrumental substation.

## LNG tankers mooring structures

The terminal includes the LNG tanker mooring structures, the so-called "Mooring Dolphins".

Each mooring structure consists of a base (a concrete box of about 7 meters high) surmounted by two columns of reinforced concrete (about 28 meters high), connected between them by a steel bridge (about 63 meters long and 8.5 meters wide).

## Living quarters

The personnel that operate and maintain the terminal reside in living quarters designed to provide a safe and comfortable environment. The facility accommodates up to sixty people to support 24 hours a day, seven days a week operation. The module includes a modern control room, from which operators can monitor every aspect of the terminal, the pipeline and the gas metering station, with an advanced control system. Communication, radar and cameras also allow a constant connection with the shore base, marine authorities and ships.

## The shore base

The shore base plays a key role in supporting the offshore terminal and coordinates all the activities to support the transport of supplies and of the technical and operational personnel to and from the terminal. This is a complex - located along the Po di Levante, in the locality of Porto Viro, in the province of Rovigo.

The base is equipped with its own helideck and mooring dock for crew supply vessels and includes a warehouse for supplies and spare parts, offices and telecommunication systems in permanent connection with the terminal.



# OPERATING ENVIRONMENT AND OUTLOOK

## 1.2

### 1.2.1

#### Market environment

##### Access to the Regasification Service

The terminal operates within the framework defined by the Ministry of Economic Development and by the Regulatory Authority for Electricity Gas and Water (AEEGSI).

The terminal has a total capacity of 8 billion cubic meters, eighty percent (80%) of which is reserved for the investors (Foundation Capacity) to regasify the LNG imported from Qatar under a twenty-five-year sale and purchase agreement between Ras Laffan Liquefied Natural Gas Company Ltd. - a joint venture between Qatar Petroleum and ExxonMobil - and Edison S.p.A., while the remaining twenty percent (20%) of capacity (Non-Foundation Capacity) is regulated and available for third parties access.

Two thirds of the Non-Foundation Capacity was contracted for ten years at the end of the "Open Season" process held in 2009. This contract started from 1 January 2010 for a total amount of 1 billion

cubic meters per year.

The remaining Non-Foundation Capacity is made available through subscription processes to Third Party Agreements Users (TPA).

The Regasification Code regulates the access to the regasification services as well as the process of capacity determination and allocation. Users requesting terminal access have the obligation to meet and maintain the requirements listed in the Regasification Code. It was approved by AEEGSI with the resolution ARG/gas 57/11 pursuant to Art. 24, paragraph 5, of Legislative Decree 164/2000 on 12 May 2011. The Regasification Code defines its amendment process, whose modifications are approved by AEEGSI upon the Company's proposal and market consultation process. The current version of the Code, updated this year with AEEGSI resolution 520/2016/R/gas dated 22 September 2016, is published on the Company's website.

During 2016, Adriatic LNG regasification terminal was utilized for approximately 69% of its total capacity, slightly below vs. previous year and continued to be significantly higher than the average utilization of other LNG terminals in Europe, estimated at



about 21% based on latest information. During this year the Foundation and the non-Foundation Capacity users released 12 capacity slots each. Moreover the Peak Shaving service fostered the allocation of one spot cargo. The Peak Shaving is one of the measures of the “Emergency Plan” set by the Ministry of Economic Development decree to ensure security of supply to the national gas system during the winter needed to cope with unforeseen peaking demand

## Marine services

Terminale GNL Adriatico S.r.l., for the safety of berthing at the offshore terminal and in accordance with the Ministry of Infrastructures and Transport note No. 6991 of 13 June 2006, provides, as a separate and optional service, marine services for the benefit of users and/or the owners of LNG carriers. In accordance with the AEEGSI resolution 625/2015/R/gas, tariff for these services are defined by the regasification Company and no longer subject to AEEGSI approval. In line with transparency obligations, marine services tariffs are posted on the Company’s website.

All services were developed by the Contractors companies in compliance with the safety standards defined by the Port Authority of Chioggia.

## Market overview

Italy is the third largest European gas market. Currently about 32% of Italian energy use is covered by natural gas and the country is heavily dependent on imports from foreign sources for its energy supply while national production continues to decline. The gas market is generally seasonal, with peak demand occurring towards the end of February/early March when gas storage fields are mostly depleted.

As background, in 2016 the Italian gas market was

supplied by: (i) four pipelines from North West Europe (Transitgas), Russia (TAG), Libya (Greenstream) and Algeria (TTPC), (ii) three LNG terminals (including Adriatic LNG), (iii) national production. Adriatic LNG terminal has contributed for ~10% of total import. Olt Off Shore terminal, has offered Peak Shaving and a new integrated service, allocating 5 cargoes in total. GNL Italia, the other existing terminal, has instead now resumed operation and has allocated 1 slot under the integrated service.

The total gas demand in Italy for 2016 was about 71 bcm, slightly higher than previous year (67 bcm). Total demand for the coming years is planned to remain flat for the next decade. More information will be made available in the first half of 2017 when the Ministry of Economic Development will develop a new National Energy Strategy (SEN).

Gas prices, heavily influenced by a downward demand trend as opposed to an high offer worldwide, averaged in the European hubs (PSV in Italy, NBP in UK, TTF in Netherlands) at about 4,5 \$/Mbtu in 2016 and in Asia as well spot gas prices dropped significantly in 2016 if compared with the 2014-2015 figures, but continued to trade on average at 1 \$/Mbtu higher than in Europe. Italian gas market has reduced significantly the gap vs. other European markets and LNG is mainly routed to other Regions rather than into Europe, despite the significant increase in LNG production with new exporting sources (e.g. USA, Australia, Papua New Guinea, etc.). New markets for LNG opened up mainly in North Africa and Middle East. In Italy a new balancing market was introduced in October, in line with the European Network Code, that is expected to increase the market liquidity significantly. In that respect Adriatic LNG has started offering an intraday flexibility service as a new ancillary service to its customers.



Despite the increase in the gas demand and recent supply contract renegotiations, the Italian market remain oversupplied with the consequence that several infrastructures projects were put on hold and only TAP obtained the green light for the Environmental Impact Assessment and is expected to start operations in 2020.

All other LNG terminals projects (e.g. Porto Empedocle, Gioia Tauro, etc.) and storage fields (Stogit and independent companies) are looking for new business opportunities (e.g. Small Scale LNG) or cost socialization to justify investment decision, but no new final investment decisions have been taken. Italy continues with its aspiration to become the Mediterranean Hub and new export capacity through pipeline from Italy to the North of Europe is expected to be implemented in 2018 for a total of 40 million cubic meter a day. This could create new market opportunities for Adriatic LNG to attract customers operating in other European markets.

## Regulatory context (AEEGSI)

According to Law n. 481 dated 14 November 1995, the AEEGSI defines the maximum tariff to be applied to regulated services such as regasification. It is a two-step process where first a framework is defined and then a tariff per unit (for regasification) or the whole market (for gas transportation or storage) is approved - or defined unilaterally - by AEEGSI.

With resolution n. 438/2013/R/Gas AEEGSI defined the framework of the regulated tariff for the regulatory period 1 January 2014 – 31 December 2017. On 8 May 2014 AEEGSI, with the resolution 209/2014/R/gas verified positively and subsequently approved the Company proposal for the amendment of the Regasification Code in order to implement resolution 438/2013/R/Gas on regasification tariff for the regulatory period 2014 – 2017.

The AEEGSI, as part of its drive to unbundle the businesses in order to promote competition in the energy market, has separated gas measurement activities from those of regasification and transportation. With resolutions n. ARG/Gas 108/10 and 438/2013/R/Gas, the AEEGSI has defined a transitory regulated tariff for the measurement activity carried out by the regasification operators (CMr component).

With resolution 625/2015/R/Gas, AEEGSI approved the regasification, gas measurement services tariffs and the quantity of LNG that is used as terminal Use & Loss Gas and that has to be provided in kind by terminal users for the calendar year 2016. With the same resolution the Authority established that marine services tariffs are no longer subject to AEEGSI approval.

On 22 September 2016 the AEEGSI, with the resolution 520/2016/R/gas, approved the Company proposal for the amendment of the Regasification Code in order to implement resolution 118/2015/R/Gas on the flexible utilization of the regasification capacity together with the update of the congestion management procedures to access the terminals.

On 7 April 2016, the Company started the REMIT reporting of fundamental data (i.e. daily send out and tank inventory, planned and unplanned outages) to the Agency for the Cooperation of Energy Regulators (ACER), as required by the Implementing Acts of European Union Regulation No. 1348/2014.

## Additional services

On 7 November 2013, AEEGSI adopted resolution 502/2013/R/Gas requesting the regasification terminals to make amendment proposals of their respective regasification codes to introduce flexibility services and temporary storage services to provide to the users the possibility to modify on a daily basis, upward and downward, their gas redelivery profile and the possibility to store LNG for a limited period of time and then postpone their redelivery





of gas against a reasonable specific tariff. The Company started offering flexibility services and temporary storage based on resolution 448/2014/R/Gas and continued the offer of such services based on resolution 499/2015/R/Gas. AEEGSI resolution 555/2016/R/Gas has defined flexibility services' tariffs for the thermal year 2016-2017.

## Security of supply – Peak Shaving

The Ministry of Economic Development with decrees dated 13 September 2013 and 18 October 2013 has modified the National Gas Emergency Plan, which provides a set of actions to be carried out in case of major interruption of gas supply during a period of high demand, including the regasification terminals among the assets which can provide support. AEEGSI is requested to define for each winter season the tariff for so-called Peak Shaving service which envisage the possibility for a supplier to store its LNG in a regasification terminal for the January – March period and make it available to the Transmission System Operator, who can request its regasification with a short term notice to face gas supply issues. Adriatic LNG (competing with Olt Off Shore and GNL Italia) launched its own tenders. AEEGSI, with resolution 585/2016/R/Gas, has defined the methodology to define the price to be paid by Cassa per i Servizi Energetici e Ambientali (Fund for energy and environmental services) through the Transmission System Operator (Snam) to the winner of the 2016-2017 winter tender.

## Integrated Service

On February 25th 2016 the Ministry of Economic Development (MISE) issued a ministerial decree (DM) introducing a bundled storage and regasification capacity service for the thermal year 2016-2017. Scope of this new service is to enable industrial customers to import directly LNG and differentiate

sources of supply.

This service was offered by all Italian regasification companies simultaneously through auctions on the basis of the rules defined by the AEEGSI resolution 77/2016/R/Gas but the tender carried out by Adriatic LNG was not successful.

### 1.2.2

## Authorization context

The Company has received permission from the Ministry of Economic Development to extend the Trial Period up to 6 September 2016 in order to enable the competent authorities to complete the tests under their jurisdiction. The Trial Period typically covers the phase of operations from start-up until the final certification of project completion by the Ministry of Economic Development.

In 2016 the following activities and testing were completed with positive results for completion of the terminal authorization procedure:

- testing pursuant to art. 48 of the Regulation for the Execution of the Navigation Code by the Interministerial Commission appointed by the Ministry of Infrastructure and Transport;
- testing pursuant to former art. 11 of Presidential Decree 420/94 by the commission appointed by the Ministry of Economic Development.

With decree dated 28th July 2016, the Ministry of Economic Development issued the final certification of project completion of the terminal, pipeline and metering station.



### 1.2.3 Current year overview

The year 2016 was the seventh year of full commercial operations for the terminal, confirming our contributions to the Italian gas market, reliability of our regasification services with highest standards of safety and health, environmental care and business controls.

Highlights include:

- the safe berthing and unloading of 64 tankers;
- zero controls irregularities;
- no spills;
- no security incidents or damage to the facilities;
- regasification operations reliability for the year achieved at 99.9%;
- redelivery of 5.5 billion cubic meters of gas into the national distribution grid, representing 8.7% of gas imports to the Italian market and 8.0% of the total gas supply;
- continued efficient operation of the terminal;
- positive financial results and cash surplus generated by operating activities allowed the Company to pay the amount of 30.9M Euro as dividends to the Quotaholders and to return a total of 84.0M Euro as partial refund of the Equity Reserve "Versamento Soci in Conto Capitale".

Management has regular litigation reviews, including updates from Company Legal Counsel and outside counsels, to assess the need for accounting recognition or disclosure of these litigations and related contingencies. Italian Accounting standard (OIC 31) requires that liabilities for contingencies are recorded when it is probable that a liability has been incurred by the date of the balance sheet and that the amount can be reasonably estimated. Based on assessment by the Legal Department and from external attorneys, of which detailed information is provided in section "1.3.1.4 Risks involved in legal disputes", no reserves have been recorded for Litigation Contingencies.

The following management discussion and analysis of Company financial results are meant to provide an overview and highlight the significant business events that occurred during the year. Company statements in this discussion are based on a forward-looking basis. Some of the major indicators of financial nature are included with the aim to enhance the description of 2016 performance.

The financial results are commented and explained in the summary tables included in following paragraphs and are further detailed in the "Notes to the Financial Statements".

#### 1.2.3.1 Investments

During the year, 18 minor project activities have been completed. Total investment amount was at 2,471k Euro inclusive of minor projects still underway. During the year fixed asset disposals totaled 10k Euro in net book value.

#### 1.2.3.2 LNG and natural gas volumes

In 2016, 64 tankers berthed at the terminal. The decrease of 3 berths with respect to 2015 is mainly driven by continued challenging market conditions and subsequent slightly higher cargo releases. The following chart shows the evolution of yearly cargo berths at the terminal according to source country.

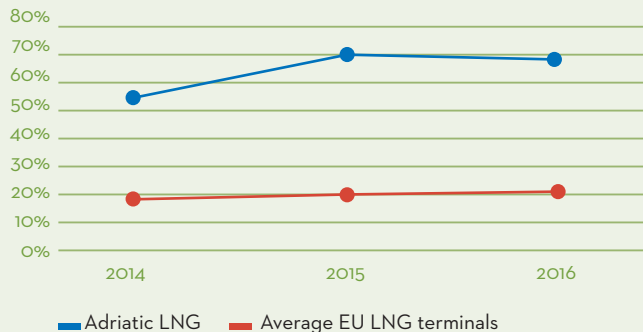


Evolution of yearly LNG cargo berths



The slight decrease of offloaded cargos directly impacted the terminal capacity utilization resulting at 69% from 70% recorded in 2015. The terminal capacity utilization remains significantly higher compared to the other European LNG terminals (estimated at 21% based on latest available data), as shown by the following graph.

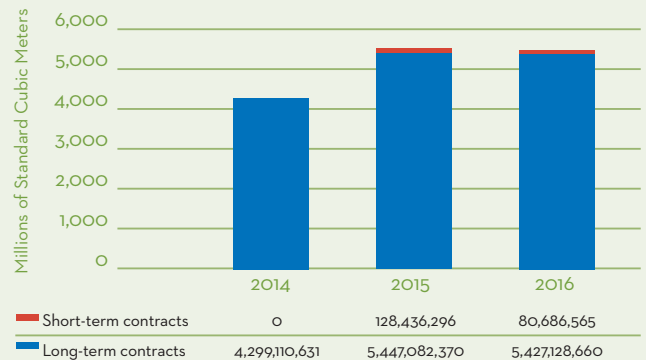
Terminal capacity utilization (% of terminal capacity)



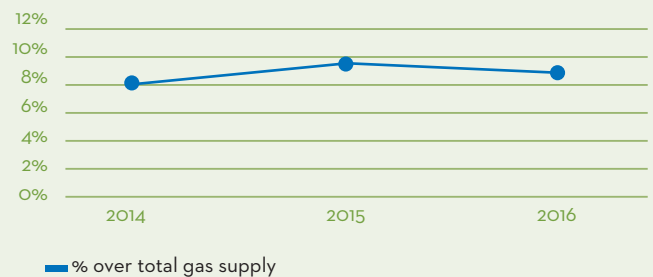
Source: GLE, EU Gas Coordination Group

During 2016, 5.5 billion cubic meters of gas were re-delivered into the national distribution grid at the Cavarzere metering station, a decrease of about 1% with respect to 2015. Evolution of yearly gas volumes re-delivered by the Company and its contribution to the supply of gas to the domestic market are shown in the charts below.

Evolution of yearly gas volumes re-delivered to the grid



Redelivered volume as a percentage of Italian gas import



Source: Ministry of Economic Development - Natural Gas Volumes





### 1.2.3.3 Summary financial information

#### Summary Income Statement

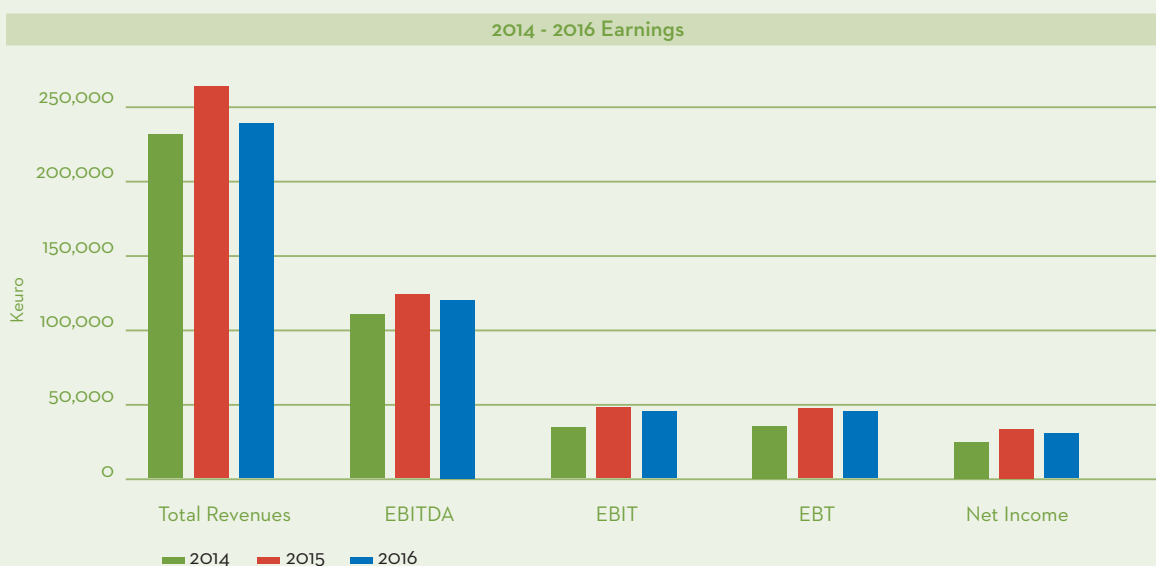
The Income Statement is reclassified following the value added approach.

RECLASSIFIED INCOME STATEMENT (thousands of Euro)	2016	2015	Abs. change	% Change
<b>A. SALES REVENUE</b>				
Revenue from sales and services	234,644	262,467	(27,823)	(11%)
Other revenue	1,085	186	899	485%
<b>NET REVENUE</b>	<b>235,729</b>	<b>262,653</b>	<b>(26,924)</b>	<b>(10%)</b>
Inventory change for raw materials, semi-finished and finished goods	-	-	-	-
Increase in capitalized expenses for internal works	-	-	-	-
<b>Total Revenues</b>	<b>235,729</b>	<b>262,653</b>	<b>(26,924)</b>	<b>(10%)</b>
<b>B. COST OF GOODS SOLD</b>				
Material and services consumption (-)	(107,188)	(127,546)	20,358	(16%)
Other Expenses (-)	(776)	(3,241)	2,465	(76%)
Risk and charges provision allocation (-)	-	-	-	-
Inventory change	2,014	549	1,465	267%
<b>Total Cost of goods sold</b>	<b>(105,950)</b>	<b>(130,238)</b>	<b>24,288</b>	<b>(19%)</b>
<b>C. ADDED VALUE</b>	<b>129,779</b>	<b>132,415</b>	<b>(2,636)</b>	<b>(2%)</b>
Labor costs (-)	(11,402)	(11,019)	(383)	3%
<b>D. GROSS OPERATING MARGIN (EBITDA)</b>	<b>118,377</b>	<b>121,396</b>	<b>(3,019)</b>	<b>(2%)</b>
Depreciation and amortisation (-)	(76,198)	(75,998)	(200)	0%
<b>E. NET OPERATING INCOME (EBIT)</b>	<b>42,179</b>	<b>45,398</b>	<b>(3,219)</b>	<b>(7%)</b>
Net financial income (expenses)	(24)	(17)	(7)	42%
Dividends	-	-	-	-
Revaluation (devaluation) of financial assets	-	-	-	-
<b>F. EARNINGS BEFORE TAXES (EBT)</b>	<b>42,155</b>	<b>45,381</b>	<b>(3,226)</b>	<b>(7%)</b>
Income tax for the period	(13,238)	(14,513)	1,275	(9%)
<b>G. PROFIT (LOSS) FOR THE PERIOD</b>	<b>28,917</b>	<b>30,868</b>	<b>(1,951)</b>	<b>(6%)</b>



2016 Net Earnings were at 28,917k Euro after tax expense provisions for a total of 13,238k Euro of which 11,675k Euro for corporate income tax (IRES), 1,701k Euro related to regional taxes on productive activities (IRAP) and a positive adjustment of 138k Euro related to previous years' direct taxes. Please refer to the specific section included in the "Notes to the Financial Statements" for further details.

In the graph below the 2016 financial performance is compared with the previous two years; despite continued challenging market conditions over the period, EBITDA shows continued efficient and effective management of Company operations.





## Revenues

Gross revenues were 235,729k Euro, down by 26,924k Euro with respect to 2015. The decrease is mainly related to lower national grid cost (pass thru), resulting from the cut by AEEGSI of the additional variable transportation tariff components, to the regasification revenues inclusive of one Peak Shaving services (vs. 2 in 2015) and to marine revenues resulting from lower tariff applied.

REVENUES	2016	2015	Abs. change	% change
(thousands of Euro)				
<b>A. REVENUE FROM SALES</b>				
Revenues from the regasification service	167,328	168,122	(794)	(0%)
Regasification revenues in kind	10,614	12,265	(1,651)	(13%)
Revenues related to balancing regime OBA	313	-	313	-
Revenues from marine services	11,445	16,361	(4,916)	(30%)
<b>Subtotal Regasification and Marine Services</b>	<b>189,700</b>	<b>196,748</b>	<b>(7,048)</b>	<b>(4%)</b>
National Grid Revenues	44,012	63,431	(19,419)	(31%)
National Grid - own consumption	932	2,288	(1,356)	(59%)
<b>Subtotal National Grid</b>	<b>44,944</b>	<b>65,719</b>	<b>(20,775)</b>	<b>(32%)</b>
<b>Revenues from ordinary operations</b>	<b>234,644</b>	<b>262,467</b>	<b>(27,823)</b>	<b>(11%)</b>
<b>Other revenues and income</b>	<b>1,085</b>	<b>186</b>	<b>899</b>	<b>485%</b>
<b>Total production value</b>	<b>235,729</b>	<b>262,653</b>	<b>(26,924)</b>	<b>(10%)</b>

Revenues are recognized on the basis of actual services rendered and in line with contractual obligations. Similar to last year, 2016 revenues do include contractual capacity made available to users and not utilized, for which corresponding Make Up balance increased by 66,162k Euro.



## Costs

In 2016, production costs were 193,550k Euro, down by 23,706k Euro from 2015.

As shown in the table below, the decrease of 2016 costs was mainly due to:

- lower national grid costs (incl. own consumption) due to the AEEGSI cut of additional variable transportation components (20.8M Euro);
- lower costs for Use & Loss gas in kind from terminal users (1.6M Euro).

These costs are fully recovered from terminal users and corresponding recharge is reported as revenue. Other notable variations include an increase of third party costs for raw materials and services (2.3M Euro), marine service (0.5M Euro) and labour cost (0.4M Euro).

On the other hand, there has been a decrease related to services rendered by Quotaholders (1.1M Euro), inventory variation (1.5M Euro) and other costs (2.5M Euro).

COSTS	2016	2015	Abs. change	% change
(thousands of Euro)				

### B. COSTS OF PRODUCTION

Consumption of raw materials and services	(107,188)	(127,546)	(20,358)	(16%)
of which:				
Third Party Costs of raw materials and services	(36,434)	(34,119)	2,315	7%
Quotaholder Services	(6,173)	(7,272)	(1,099)	(15%)
Use & Loss gas in kind from Users	(10,614)	(12,265)	(1,651)	(13%)
National Grid Costs	(44,012)	(63,431)	(19,419)	(31%)
National Grid - own consumption	(932)	(2,288)	(1,356)	(59%)
Marine Services Costs	(8,711)	(8,171)	540	7%
Costs related to balancing regime OBA	(312)	-	312	-
Labour costs	(11,402)	(11,019)	383	3%
Other costs	(776)	(3,241)	(2,465)	(76%)
Depreciation and amortisation	(76,198)	(75,998)	200	0%
Inventory variation	2,014	549	(1,465)	267%
<b>Total production costs</b>	<b>(193.550)</b>	<b>(217.256)</b>	<b>(23.706)</b>	<b>(11%)</b>





## Summary Balance Sheet

Company Balance Sheet is reclassified following the “functional criteria”. This approach applies the concept that the Company solvency is based on its ability to generate the necessary and sufficient resources, in quantity, quality and time to meet its financial needs. The reclassified balance sheet compares the net investments against total of Equity and net financial position.

Net invested capital as of 31 December 2016 was 2,095,077k Euro, down by 67,575k Euro from previous year. Decrease is mainly due to (i) the reduction in Fixed Assets Net Book Value (73,282k Euro), reflecting the yearly depreciation and (ii) the increase of net working capital mainly driven by higher advances for income taxes.

SUMMARY BALANCE SHEET (thousands of Euro)	2016	2015	Abs. change
<b>A. FIXED ASSET</b>			
Intangible	2,306	1,271	1,035
Tangible	2,068,682	2,142,999	(74,317)
Financial	-	-	-
	<b>2,070,988</b>	<b>2,144,270</b>	<b>(73,282)</b>
<b>B. NET WORKING CAPITAL</b>			
Inventory	14,857	12,843	2,014
Receivables	23,923	25,975	(2,052)
Other assets	7,475	6,438	1,037
Payables (-)	(18,352)	(19,562)	1,210
Other liabilities (-)	(3,397)	(6,907)	3,510
Provision for risks and charges (-)	-	(15)	15
	<b>24,506</b>	<b>18,772</b>	<b>5,734</b>
<b>C. INVESTED CAPITAL EXCLUDED LIABILITIES FOR THE PERIOD (A+B)</b>	<b>2,095,494</b>	<b>2,163,042</b>	<b>(67,548)</b>
<b>D. PROVISION FOR STAFF SEVERANCE INDEMNITY (-)</b>	<b>(417)</b>	<b>(390)</b>	<b>(27)</b>
<b>E. NET CAPITAL INVESTED (C-D)</b>	<b>2,095,077</b>	<b>2,162,652</b>	<b>(67,575)</b>
Financed by:			
<b>F. NET EQUITY</b>	<b>2,104,032</b>	<b>2,189,964</b>	<b>(85,932)</b>
<b>G. NET FINANCIAL BORROWING (AVAILABILITIES):</b>			
Mid and long-term loans	-	-	-
Short-terms loans (-)	(8,955)	(27,312)	18,357
	<b>(8,955)</b>	<b>(27,312)</b>	<b>18,357</b>
<b>H. TOTAL SOURCES OF FUNDING (F+G)</b>	<b>2,095,077</b>	<b>2,162,652</b>	<b>(67,575)</b>



## Equity

Quotaholders' Equity was 2,104,032k Euro, down by 85,9M Euro from 2015. Equity reduction is due to (i) the partial refund to Quotaholders of the Equity Reserve "Versamento Soci in Conto Capitale" totaling 84.0M Euro and (ii) dividends payment for 30.9M Euro and 2016 Net Profit.

Partial refund of the Equity Reserve, without prejudice to creditors, and dividends payment were in line with Quotaholders' resolutions on 25 January 2016 and on 26 April 2016 respectively and as detailed in the approved 2016 Financial Plan for refunding form and timing.

EQUITY (thousands of Euro)	2016	2015	Abs. change
Capital stock	200,000	200,000	-
Legal Reserve	40,000	40,000	-
Reserve for Quotaholders capital contributions	1,824,302	1,908,302	(84,000)
Other Reserves	10,813	10,794	19
Retained Earnings / (Losses)	-	-	-
Gain / (Loss) for the period	28,917	30,868	(1,951)
<b>Total</b>	<b>2,104,032</b>	<b>2,189,964</b>	<b>(85,932)</b>

## 1.2.4 Safety, Security, Health and Environment

The goal of Company management is to operate with zero injuries or occupational illnesses, zero spills and regulatory exceedances and no significant loss of containment, equipment damage or business loss. Management's first priority is to systematically control risk by ensuring the effectiveness of the Company's integrated Safety, Security, Health & Environmental Management System (SHEMS).

In 2016 European Directive SEVESO III on Major Accident Prevention entered into force through legislative decree 105/15, requiring the update of



the “Safety Case”. The “Safety Case” is a document containing the risk analysis and identification of major accidents hazards and description of the mitigations in place to prevent them, including information on emergency plans. The “Safety Case” is currently at the evaluation stage process by the competent authorities.

Ensuring continuous compliance to Seveso Law and support sustainment of recommendations and prescriptions is an established goal for our SHEMS that has been actively worked this year, as SHEMS is Adriatic LNG’s Safety Management System that ensures compliance to Major Accident Prevention Law requirements.

In the first quarter of 2016 all system owners and administrators agreed on the Top SHEMS Priorities for the next 12/24 months: fit for risk contractor selection and monitoring process, process safety initiative for operations and no overdue integrity critical work orders. For each of the three areas a leader has been assigned and progresses have been stewarded at the SHEMS Steering Committee.

A specific program has been developed in order to increase active engagement of the workforce in operations Integrity process.

In 2Q 2017 there will be a full SHEMS Assessment which will involve expertise from EMQI and joint ventures in the Assessment Team.

The internal communication of Company SSHE performances has been enhanced also utilizing the video-walls for Milan Office, shore base and terminal. Key messages on Personnel Safety, Process Safety and Environmental Performances are now delivered to a wide audience with better clarity.

## Safety

The Company’s relentless pursuit of an incident-free workplace continued through 2016. Leadership and guidance is provided through the Company SSHE Steering Committee, three site Safe Operating Committees (SOCs) at the terminal, shore base

and Milan office and various Work-Site Safety Committee Meetings (WSSCs).

2016 year has been the best year ever for Adriatic LNG recording 12 months with no reportable incidents for Personnel Safety, recording only one First Aid case.

A significant milestone in 2016 activities was the safe and hurt-free execution of the Shut Down Valve replacement project on the offshore terminal, and its completion ahead of schedule and within budget. A dedicated Safety Management Plan was approved, in which leading and lagging indicators were set up specifically for the project.

Managing the safe performance of contractors continued to be a key focus area of Adriatic LNG management in 2016. Integrity critical key contractors are participating in the Contractors Quarterly SHE Network meetings with the aim to serve as a network for sharing experience, lessons learned and knowledge of best practices from other industries, and to demonstrate leadership in SHE management. Lessons learned from incidents and/or near losses has been one of the most significant activity conducted during 2016, also enhanced by the active participation to the Quarterly Terminals conference calls managed through EMQI, in which the participants (Adriatic LNG, South Hook LNG and Golden Pass LNG) have the opportunity to share not only incidents or near losses occurred at each worksite, but also lessons learned and improved practices.

The Process Safety Initiative has been launched during the second half of 2016. The main objectives of the initiative are: Adriatic LNG personnel to adopt the Barrier Model concept in identifying and effectively managing risk; Process Safety Actions in place to sustain understanding of key elements and their relevance in Adriatic LNG operations; Incident investigations to incorporate the barrier model to ensure an effective means of capturing and sharing lessons learnt. The next step is to develop Process Safety learning moments utilizing Adriatic LNG safety case, and to reinforce the mitigation barriers



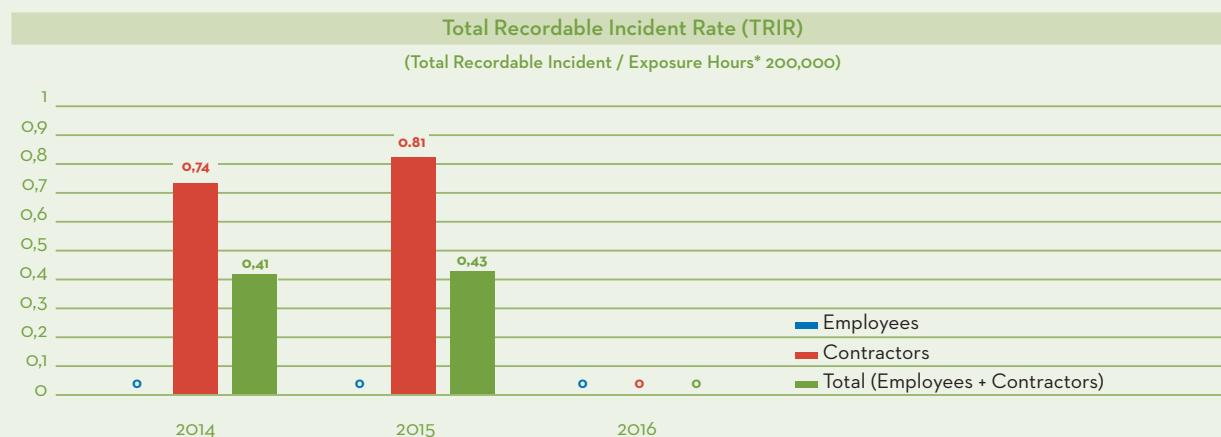
and enable individuals to play active role in ensuring barrier health, which will be completed in 2017.

As part of the LPS (Loss Prevention System) Behavior Based Safety Program, a LPS workshop has been conducted during the first quarter of 2016, with the main objective of identifying improvement opportunities for prioritizing programs, selecting initiatives and deciding where resources can be most effectively directed for loss prevention activities.

Incident Analysis performed on incidents or near losses has substantially improved, also due to a more effective use of IRAT and PHL tools, and a more robust incident review performed on a weekly basis with the participation of site leaders and advisors. Incident Analysis includes the review of the

types of injuries, equipment types, root causes, impacted SHEMS systems and leverage loss, near loss. Analysis is stewarded at SSHE Steering Committee Monthly Meeting and it is cascaded to all levels of the organization through Safety Meetings and Safety Boards. An analysis module is in place as part of the LPS Database, which supports sustainment and multi-year time range for a wider perspective of the analysis.

The graph and table below show an overview of safety performance achieved by the Company during 2016 and report the number of exposure hours, safety incidents (Lost Time Incidents and Total Recordable Incidents) and resulting rate. In 2016 no recordable incidents occurred.



	Exposure Hours	LTI	TRI	LTIR (/200khr)	TRIR (/200khr)
Employees	207,544	0	0	0,00	0,00
Contractors	265,221	0	0	0,00	0,00
<b>Total</b>	<b>472,765</b>	<b>0</b>	<b>0</b>	<b>0,00</b>	<b>0,00</b>

Key: LTI - Lost Time Incidents - incidents causing the injured party to be unfit to return to work the following work day  
 TRI - Total Recordable Incidents - the sum of LTIs, Restricted Work Incidents (RWI) and Medical Treatment Incidents (MTI)  
 LTIR - Lost Time Incidents Rate  
 TRIR - Total Recordable Incident Rate





## Security

The Company adopted a systematic approach to security by means of dedicated Security Plans covering onshore and offshore sites. The Security Manual and Plans document and describe the security responsibilities, measures and procedures adopted and implemented for the terminal, Milan office and shore base. No security incidents occurred at Company sites during 2016.

For the offshore terminal, in accordance with the International Convention for the Safety of Life at Sea (SOLAS) Parts A and B amendments (ISPS Code), a Port Facility Security Plan (PFSP) has been adopted. The PFSP establishes procedures for the division of responsibilities between the gas carrier and the terminal in relation to the security objectives. It identifies the Port Facility Security Officer (PFSO) and the other internal and external security organizations including their contact information; it improves security at the shore base, heliport and offshore terminal by promptly identifying, preventing and responding to security incidents and it ensures that records of the security operations are kept with a view of tracing and handling any non-conformity. The aim of the ISPS Code is to improve maritime security by laying down an international context which encourages cooperation between the signatory governments, designated authorities, organizations, shipping companies and the other parties involved in setting up preventive measures against threats to the security of port facilities and ships involved in international traffic.

Adriatic LNG has adopted a “defensive” approach with specific security training plans to ensure full compliance with the requirements defined for the different Adriatic LNG Premises and for the ISPS Code. A consolidated training plan (base and refresh) for all those involved into the Security within the three Adriatic LNG premises is in place. To ensure the effective application of the PFSP and Security Plans for Milano and shore base, drills and con-

trols have been carried out at appropriate intervals as per each Site Security Activity Plan, taking into account the type of operation carried out in the facility, the rotation of plant personnel, the types of vessels that serve the facility and other relevant circumstances.

Three security levels have been defined at Adriatic LNG premises equivalent to those applied for the ISPS at terminal. Specific security measures have been adopted on the basis of the security level in force.

The Adriatic LNG SHEMS 5D SSAR (Single System Assessment & Review) conducted in April 2015 confirmed the higher physical, technical and procedural security measures at Adriatic LNG generally consistent with the security baseline countermeasures.

## Health

Legislative Decree 81/2008 lists the general safety and health protection measures of workers at work. Main applicable health-related measures and activities undertaken in 2016 are as follows:

- health exposure monitoring campaigns;
- execution of an extensive health surveillance plan for employees. Medical examinations are carried out periodically by Company's doctor, to check the workers' medical fitness;
- alcohol and drug tests, executed offshore by Company's physicians.

Training and information to workers will continue to be an ongoing activity at all locations over the coming years.



## Environment

The Company's operations from an environmental perspective are strictly regulated. The overall impact of terminal operations on the environment was assessed and environmental monitoring plans established within the Environmental Impact Assessment (EIA) decrees, dated 30 December 1999 and dated 12 October 2004. All emissions, both to water and air, as well as waste, are controlled by the Integrated Pollution Prevention & Control (IPPC) Permit (Autorizzazione Integrata Ambientale, AIA). The IPPC permit was first issued in 2009 for a five-year period. The IPPC package for permit renewal has been submitted to Ministry of Environment in July 2013 as required and further public announcement has been published on national newspaper on 8 September 2013, according to the IPPC Renewal Procedure. From January 2016 to May 2016 preliminary meetings have been held with Ministry of Environment and ISPRA to discuss IPPC Renewal package content. The IPPC Permit Renewal was obtained in October 2016 and is valid for the next 10 years.

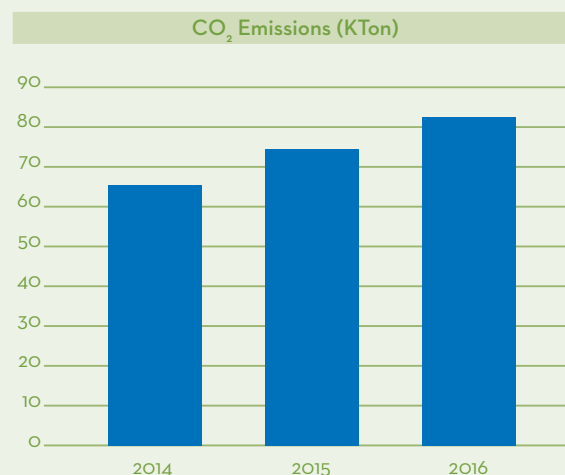
The Company is required to participate in the European Union Emissions Trading System (ETS) which sets strict measurement requirements for CO<sub>2</sub> emissions and necessitates CO<sub>2</sub> allowances to surrender to the regulator to cover all CO<sub>2</sub> emissions. The primary source of CO<sub>2</sub> emissions for the Company is the fuel gas consumed in the natural gas turbine generators, representing more than 98% of its total CO<sub>2</sub> emissions. The rate of emissions is therefore linked to the demand for power mainly driven by actual regasification activities. The secondary source of CO<sub>2</sub> emissions is from flaring, the majority of which occurs during shutdown events.

The European Union Emissions Trading System (ETS) Phase III covers the period 2013-2020; for this period the Company has been granted free allowances, as per Ministry of Environment (MoE) deliberation n. 29/2013 dated 20 December 2013,

that decreases the free allowance allocation for the Company each year until reaching 33% of the 2013 level in 2020.

At the end of 2016, the Company has a credit totaling 4,586k Euro for CO<sub>2</sub> rights related to the ETS Phase II (2008-2012), during which according to law decree 72/2010, being a "newly-appointed" operator (so-called "nuovo entrante"), in spite of receiving free allowances the Company was assigned monetary claims. In January 2015 the Company applied for CO<sub>2</sub> credits reimbursement to the Ministry of Economic Development, as requested by the ministerial decree dated 21 February 2014.

The CO<sub>2</sub> emission trend for ETS Phase III is detailed in the graph below (2016 actual CO<sub>2</sub> emission data represents the best estimate and will be verified by External Auditor prior to CO<sub>2</sub> allowances surrender by 30 April 2017 as per law decree 216/06). Increase of CO<sub>2</sub> emissions in 2016 is mainly due to maintenance activities carried out during the year (SDV project).





The Company is pursuing the waste management principles of Reduce, Reuse and Recycle. Regulations control the identification, transportation and disposal of waste. The Company has established waste collection, segregation, transportation and disposal procedures and controls in compliance with the applicable legal requirements.

Since 2010, an extensive marine sampling and monitoring campaign has been implemented by the National Institute for Environmental Protection & Research (ISPRA) around the Terminal and along the pipeline in order to sample and test the impacts of Terminal operations on marine ecosystems as per the Environmental Impact Assessment (EIA) decree requirements. In 2016 ISPRA has been developing a new sampling and monitoring plan which will be implemented for the next 5 years .

The Company will maintain a strong and constant focus on environmental regulatory compliance, operations integrity and surveillance in order to prevent nonconformities, spills and exceedances.

### 1.2.5 Human resources and industrial relations

As of December 31st, 2016 the Company had 122 employees. The increase vs. previous year is due to the accomplishment of the recruiting process for employee replacements in the Operations and Technical departments. The progressive replacement of secondees with direct hires is a key element of the staffing strategy.

Training plans, as well as systematic performance assessments and job rotations, will ensure that direct hires are gradually exposed and equipped with the professional skills and experience required for assuming positions of increasing supervisory and managerial responsibility. Special efforts have been made in creating a People Strategy designed to ensure a timely and systematic approach to the planning of the company human resources.

The Company headcount at year-end 2016 had the following composition:

- 2 managers
- 15 supervisors
- 82 professional employees
- 13 technicians/wage workers
- 9 resources seconded from the Quotaholders or their affiliates (3 foreigners and 6 Italians)
- 1 resource seconded to the Quotaholders or their affiliates.

2016 employee movements are shown in below table:

	31.12.2015	Incoming	Outgoing	Reclassified	31.12.2016
Managers	2	0	0	0	2
Supervisors	16	0	(1)	0	15
Professional employees	77	3	(1)	3	82
Technicians/wage workers	16	1	0	(4)	13
Secondee from Quotaholders or their affiliates	9	2	(2)	0	9
Secondee to Quotaholders or their affiliates	0	0	0	1	1
<b>Total*</b>	<b>120</b>	<b>6</b>	<b>(4)</b>	<b>0</b>	<b>122</b>

\*temporary resources not included in the Total



Employment contracts used were, for managers, the Managers of Producers of Goods and Services Companies National Labour Collective Agreement (CCNL), and for other employees, the Energy and Petroleum National Labour Collective Agreement (CCNL).

With regards to the Productivity Premium, all three sites have confirmed outstanding results, addressing the scope of the system that aims to encourage individual participation to the Company performance. Negotiations for the Company Agreement renewal which will be valid throughout the period 2017-2019, are currently under way at the preparation date of these Financial Statements. This activity includes the renegotiation of the “Productivity Premium” for each of the three Company locations (HQ, shore base and terminal) and the redefinition of site specific allowances.

In the area of Compensation and Benefits in April 2016 a new Total Remuneration (TR) Survey has been completed including a comprehensive benchmarking exercise for all the company positions. It has been confirmed that total remuneration package continues to be aligned with the market in order to achieve the Company long term objectives in terms of retention and motivation of quality staff. It has also been consolidated that the original “two years” frequency for the Survey can be extended to “three years” due to the transition from a start-up to a more stable and mature Company. In 2016 the Company competitiveness has been maintained in line with the TR Survey outcome. As per current compensation policy, the integration of the Company merit increase program with the Oil NLC performance-rewarding tool, called CREA (sub-classification steps based on the assessment of Complexity, Responsibility, Experience, Autonomy), has been maintained.

## 1.2.6 Fiscal matters

The overall taxes and levies balance at year-end shows a credit of 570k Euro and is reported into relevant Balance Sheet sections.

### Direct taxes

For 2016 tax expense provisions totaled 13,238k Euro of which 11,675k Euro for corporate income tax (IRES), 1,701k Euro related to regional taxes on productive activities (IRAP) and a positive adjustment of 138k Euro related to previous years' direct taxes. As of 31<sup>st</sup> December tax advances amounted to 12,542k Euro for IRES and 1,825k Euro for IRAP.

### Indirect taxes

On 22 December 2016 the Company received a tax calculation notice issued by the Porto Viro municipality (Rovigo) for 2010 ICI/IMU (property) tax related to the terminal site for a total amount of 3,642k Euro (of which 3,010k Euro base tax and 632k Euro interest). The tax assessment notice was issued on the basis of three recent judgments of the Supreme Court (Corte di Cassazione) that ruled oil platforms in territorial water subject to ICI/IMU.

Given the peculiarities of assessed tax, the Company appointed a preeminent tax consulting firm after the data request from the municipality since last June 2016.

Following the analysis carried out and insights executed, taken into account the current legislation, the resolution of the Finance Ministry of 1 June 2016, the role of the terminal in national and international energy development strategies and the opinion provided by the tax consultant, the Company assessed there are solid arguments to support that no ICI/IMU tax is due for the terminal and decided to challenge the tax assessment notice by filing an





appeal on 20 February 2017 to the Provincial Tax Commission of Rovigo.

Therefore, based on the conclusions drawn by the tax consultant opinion and according to Italian Accounting Standard OIC 31 requirements, no provisions has been recognized in these Financial Statements.

ICI/IMU is instead due for the metering station located in Cavarzere.

With respect to the excise duty on diesel intended for exempt use and for which company has already filled reimbursement requests, a follow-up with authorities is continuing to ensure reimbursements of the outstanding credits. With regard to the excise paid for 2009 and 2010, the Company received partial refund (122k Euro out of the total requested of 183k Euro) and is awaiting clearance. With regard to the excise duties paid for 2015 and 2016, the Company is preparing instance of refund.

# RISK MANAGEMENT AND CONTROLS ENVIRONMENT

## 1.3

Management is regularly monitoring those areas of risk to which the Company could be exposed and specific committees or internal control bodies have been appointed for this purpose.

The Company established a set of standards and policies, and continues to develop strategies and specific goals and expectations at different organizational levels, while at the same time providing the necessary resources to operate in an environment of integrity, security and control.

Since May 2005, the Company has been audited nine times. In 2016, a team including auditors from all three Quotaholders conducted an “all Company” audit with successful results. Some comments were raised as well as identification of few improvement opportunities. All comments are now closed as per agreed actions and timeline.

Since Adriatic LNG 2016 Quotaholders’ Audit received satisfactory opinion, Adriatic LNG’s maturing controls environment is evident in the decreasing number and significance of audit findings (since 2006). The sustainability of Adriatic LNG’s sound controls environment is supported by:

- strong leadership and personnel commitment on controls;
- policies, guidelines and procedures in-place;
- CIMS Permanent Control Activities and interim assessments functioning as expected;
- Governance established to provide effective compliance oversight and to ensure controls weaknesses are addressed timely, stewarded and sustained;
- stable organization with low turnover levels.

Based on current information, it is planned that Quotaholders will exercise their audit rights by conducting audits on a triennial frequency with each audit covering all Adriatic LNG’s activities and processes. The next Quotaholders Audit is scheduled to have fieldwork in May 2019.

During 2017, a team of employees with an adequate expertise in control matters will conduct a Company-wide Unit Internal Assessment (UIA).

The results and activities of the Company in its various functional components are constantly stewarded by the Company Management Team which is led by the Managing Director and includes all de-



partment managers.

Key performance indicators have been identified in order to monitor the operating and financial results as well as efficiency and controls and are periodically reviewed by Company management.

In accordance with regulations the Compliance Team (Organismo di Vigilanza per D.Lgs 231/01) and Guarantor (AEEGSI resolution ARG/gas 11/07) have been appointed and regularly conduct their reviews and perform required verifications with periodical reporting to the Board of Directors and the Board of Statutory Auditors.

The following sections provide information on the main risks of corporate nature or otherwise, including those related to litigation.

### 1.3.1 External risks

#### 1.3.1.1 Credit risk

The Company considers the credit risk to be limited. In fact, the terminal users, with whom the Company has signed long-term contracts (ten-years and twenty-five-years), are primary companies in the energy sector.

Any potential credit risk associated with the regasification activity is managed by the responsible department and subject to specific assessment and control procedures, under the Regasification Code prior to capacity allocation. Specifically, the Regasification Code requires bank guarantees to any user with Moody's rating below Baa3 or S&P rating below BBB-. The Company also uses procedures which provide, where applicable, advance payment clauses (e.g. provision of marine services).

For aforementioned reasons, no specific reserve has been recorded and no provisions made for bad debts.

#### 1.3.1.2 Foreign exchange and interest rate risks

The Company does not operate on the currency market and foreign exchange rate risk is limited to normal currency variations related to operating contracts in foreign currencies, primarily connected to payables in USD.

The Company is not exposed to interest rate fluctuations because it neither operates with derivatives nor has financial charges from debt, having been largely financed through capital contributions from Quotaholders. As discussed in a previous section, the cash flow generated by operating activities funds the Company's financial requirements.

#### 1.3.1.3 Regulatory risks

The Company operates in a continuously evolving regulated market with high relevance for environment impacts. Therefore a constant monitoring of the development and introduction of new applicable regulations is critical to ensure Company operations do meet related requirements.

The Company's management constantly reviews potential or newly introduced requirements and is in contact with the relevant authorities and agencies to ensure that new standards are implemented correctly and in accordance with the general principle of cost effective management. Company's management participates, as required, in regulatory consultation processes.

Specific sections in this document provide more information and updates on regulatory and authorization activities.



### 1.3.1.4 Risks involved in legal disputes

In the course of its business, until the end of December 2016, the Company was directly or indirectly part of the proceedings in disputes that are constantly monitored by the Legal Department, with assistance from external lawyers.

The following list provides an analysis of ongoing court litigation for the Company.

#### **Challenges filed by Terminale GNL Adriatico S.r.l. with TARs**

- On 31 January 2014 and 24 October 2014 the Company has filed two challenges against the Energy Authority (Autorità per l'Energia Elettrica, il Gas e il Sistema Idrico) with TAR Lombardia for the same issue: the unilateral reduction by Energy Authority of the maritime services tariff in resolutions n. 604/2013/R/Gas and n. 335/2014/R/Gas. The hearing is yet to be defined and there are no further developments since December 2015.
- On 29 October 2015 the Company has filed a challenge with TAR Lazio against the Ministry of Environment against its warning for alleged non-compliance with IPPC decree dated 11 August 2015 and ISPRA related reports dated 4th August 2015 and 23rd September 2015. The hearing is yet to be defined and there are no further developments since December 2015.

#### **Challenges filed by other parties with TARs**

Challenges filed by BP Energy Europe Ltd vs. Ministry of Economic Development (MED) with TAR Lombardia. BP Energy Europe Ltd, a user of the regasification service, has challenged the MED decree dated 25 February 2016 and the resolution of the Energy Authority n. 77/2016/R/GAS dated 29 February 2016 on the tender for the allocation of sc. "integrated service" for 2016 (short term regasification and storage services combined). The Company

has joined the challenge on 29 September 2016 as interested party.

#### **Criminal case lodged against Managers with the Rovigo Tribunal**

In January 2011, a criminal case for alleged environmental crimes related to the operation of the terminal (i.e. foam at sea production caused by mechanical process) has been brought against an employee and a Quotaholders' seconded employee (no longer seconded in the Company). On November 9th 2016, the Rovigo Tribunal stated, in first instance, a full acquittal pursuant to article 530 of the Criminal Code, by finding both accused persons not guilty.

In light of the opinions expressed by the Legal Department and the due diligence analysis of the above pending cases, as set out in this section, it was concluded that contingent liabilities involved and applicable accounting principle do not require setting up a provision for these risks.

## 1.3.2 Operating risks

The operation of the terminal, the first offshore concrete regasification plant in the world, presents unique complexities in addition to the more common operational risks related to Safety, Health and Environment of an onshore regasification plant.

However, the terminal location at 15 kilometers from the coast represents a reduction of detrimental impacts to people in the community, property and the environment, that could arise from events outside the control of the Company and beyond its will such as, explosions, fires, earthquakes and similar. Nevertheless, the major accident hazards are still taken into consideration by the management of the Company in the Safety Case, according to the Seveso Law for the purposes of prevention and control as





well as for the assessment of the available insurance coverage.

The terminal consists of interdependent processing modules and any risk of malfunction of the units and systems involved in regasification as well as the loss or damage to technical components and/or equipment installed or being installed on the terminal may cause a service interruption with potential effects on the Company profitability.

These issues are mitigated by the implementation of the framework of prevention and control provided by SHEMS, the status of which is described in section "1.2.4 Safety, Security, Health and Environment". The Company has also engaged with leading insurance brokers and implemented an insurance program (Operating Insurance Program) to cover risks related to ownership and execution of activities carried out on the terminal.

### 1.3.3 Liquidity risk

The fulfillment of financial obligations of the Company depends on the payment regularity of two major users. In case of non-fulfillment of obligations by counterparts, liquidity risk hedging is guaranteed by the Quotaholders.

### 1.3.4 Strategic risks

The Company is exposed to the risks associated with the political and regulatory framework, and domestic and international competition. This may affect the ability to attract new LNG users when regasification capacity is available. In order to mitigate such risks, the Company is structured with an efficient organization and with a complete system of internal control processes. During 2016, such pro-

cesses have ensured the regular and satisfactory operations along with financial and economic results, confirming the ability to continue disciplined capital expenditures within budget.

The results obtained during this seventh year of operation confirmed the expectations about the profitability and financial capacity levels, while the long-term models indicate a capacity to generate positive cash flow over time to secure profitable margins as regards both the Company and the contracts with users. The return on investment at a reasonable discount rate is influenced by the regulated tariff system and the predetermined tariff methodology for the Foundation Capacity services agreed in May 2005 as part of the entire set of transaction agreements for the supply and purchase of LNG from Qatar. These agreements were executed consistent with the Third Party Access exemption and other authorizations obtained. For reference, the Third Party Access exemption has been obtained from the Ministry of Economic Development (former Ministry of Productive Activities) following AEEGSI positive advice (resolution 206/04) recognizing the need for a dispensation for "the level of risk associated with the investment" and that the Antitrust Authority, with resolution dated 25 March 2004 no. 13036, has released positive advice to establish a dedicated joint venture for the purpose of developing an additional source into the Italian gas market, to be realized through the current Quotaholders.

For the purpose of monitoring the main variables and related impacts of this situation, long term models will be updated incorporating the objective information available, as well as any other necessary medium and long term assumptions.



### 1.3.5 Information Technology

The Company has maintained stable computer systems for key business processes, such as process control and monitoring of terminal operations, gas measurement and inventory management, cost control, procurement and invoicing. The risk of service disruption due to system failure was considered, and solutions have been implemented to reduce the risk of system failure (redundancy) as well as to minimize information loss (regular back up and business continuity plans).

### 1.3.6 Provisions for risks and charges

With reference to the activities of risk management and control environment, the Company assessed no need for provisions to special funds for risks and charges. With regard to the tax assessment notice issued by the Porto Viro municipality (Rovigo) for ICI/IMU (property) tax, please refer to what has been already disclosed in previous section "1.2.6 Fiscal Matters".

To be noted that during 2015, as disclosed in the relevant section "Funds for risks and reserves" of the 2015 Notes to the Financial Statements, the Company completed the assessment regarding potential restoration costs as requested by AEEGSI, obtaining by an independent engineering consultant company a technical appraisal aimed to update the estimate of potential restoration costs, and, by a leading firm in the sector, a study drawing long term scenarios of energy and gas consumption, which confirmed correctness of the assumption that the terminal will still be of strategic importance to the diversification and supply of the European and Italian energy system in 2052 and beyond. Lastly, to complete such comprehensive and complex

analysis, the Company obtained, from a preeminent consultant firm, an opinion on civil law, administrative and accounting aspects for this risk. Based on the outcome of above mentioned analysis and studies, the opinion concluded that the risk should be assumed as remote.

During 2016 there were no significant events that would trigger the need to revisit and update the aforesaid analysis, thus the Company holds those conclusions still valid in regard to the long term energy outlook and the opinion on civil law, administrative and accounting aspects. Therefore, accordingly to OIC 31 requirements, did not recognize any provision for potential restoration costs in these 2016 Financial Statements.

The Company, with the aim to opportunely monitor the risk evolution, currently assumed as remote, will request, in case of significant events, a periodic update of both the technical appraisal and the long-term energy outlook.

During 2016 the amount of 15k Euro accrued for a potential fine from the Rovigo Prefecture was settled with the payment of 1.5k Euro penalty.

## OTHER INFORMATION

# 1.4

(pursuant to articles 2427 - 22 bis, 22 ter, 2428 and 2497 - bis of the Civil Code)

### 1.4.1

#### **Stocks or shares of companies**

As of 31 December 2016, there are no parent company shares in the portfolio, even indirectly held through subsidiaries, trust companies or proxies. During the year no operations were done related to shares of parent companies, whether direct or by other indirect means.

### 1.4.2

#### **Relations with controlled, affiliated, controlling companies, companies controlled by parent companies and corporate governance**

As of 2 May 2005, following the end of Edison S.p.A.'s governance, the Company operates in line with the new By-Laws which outline the specific roles of the Quotaholders and those specific to the Board of Directors, including nomination criteria. Based on Company By-Laws, none of the Quotaholders uniquely governs the Company.

For services such as personnel secondment, consultancy, administration and accounting services or other professional services being requested to Quotaholders - or their affiliates - the Company has signed a Service Agreement with Quotaholders in line with current market conditions.

The table below shows the Company's relations with Quotaholders - or their affiliates - by category and



layout in compliance with disclosure requirements set by the art. 2427 - 22 bis of the Italian Civil Code.

Yea 2016											
(amounts in thousands of euro)						Costs			Revenues		
Qatar Terminal Limited						-	-	-	-	-	-
ExxonMobil Italiana Gas S.r.l.						28	-	-	-	92	-
Edison S.p.A.						19,383	1,738	-	-	168,940	-
<b>Subtotal</b>						<b>19,411</b>	<b>1,747</b>	<b>-</b>	<b>-</b>	<b>169,033</b>	<b>-</b>
ExxonMobil Qatar Inc. (1)						-	906	-	-	-	-
Edison Trading S.p.A.						-	317	-	-	-	-
<b>Subtotal</b>						<b>-</b>	<b>1,223</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>						<b>19,411</b>	<b>2,970</b>	<b>-</b>	<b>-</b>	<b>169,033</b>	<b>-</b>

(1) Providing Services as per Service Agreement on behalf of ExxonMobil Italiana Gas S.r.l.

Furthermore, and pursuant to disclosure requirements set by art. 2427 - 22 ter of the Italian Civil Code, the Company has no other agreements that were not represented as such within the Balance Sheet.

### 1.4.3 Future investment plans and financial resources

#### Investments

The investment plans for 2017 include some minor projects mainly aimed to meet new safety or environmental requirements.

#### Financial resources

Planned investment activities can be funded by the estimated positive cash flow in line with the assumptions of the 2017 Financial Plan.



#### 1.4.4 Headquarters and secondary offices

The Company does not have any secondary offices. During the month of January 2017 the Company moved the Shore base to via Cristoforo Colombo, 3 located in Porto Viro municipality. The Company has the following local units at the preparation date of these Financial Statements:

- Headquarters in Piazza Sigmund Freud 1 Milan (MI)
- Via Cristoforo Colombo 3 - Porto Viro (RO)
- Regasification plant - Territorial Water LT 45°05'26.294"N LG 12°35'04.973"E
- Acquamarza Bassa District - Cavarzere (VE).

#### 1.4.5 Independent auditors

The Financial Statements for the period ended 31 December 2016 which is submitted for approval was audited by Deloitte & Touche S.p.A. on the basis of the auditing mandate for the 2014-2016 three-year term as resolved by the Quotaholders' Meeting on 29 April 2014. In this occasion, Quotaholders also commissioned Deloitte & Touche S.p.A. to carry out the accounting control duties which include periodic checks on the correctness of the accounting information.

#### 1.4.6 Future years overview

Il management della Società continuerà a essere  
The Company's management will continue to be fully committed in achieving all targets as set out in the

approved 2017 Work Program & Budget. In the first quarter of 2017, no significant deviations on costs and revenues were noted. The Company will continue to operate with the same focus on safety and health, care for the environment and business controls as demonstrated throughout the project development and in the first six years of full commercial activities. Over the next few years, the Company will continue to work with local authorities, associations and NGOs, and seek opportunities to engage the community on the following:

- safety and health
- environment and energy efficiency
- culture and education.

#### 1.4.7 Research and Development

During 2016 the Company did not incur research and development costs.

#### 1.4.8 Financial Instruments

The Company has not issued Financial Instruments.

For the Board of Directors

**The Chairman**

Homoud Fahad Homoud Sultan Al-Qahtani







# FINANCIAL STATEMENTS

AT 31 DECEMBER 2016

# 2





The Financial Statements for 2016 include the Balance Sheet, Income Statement, Cash Flow Statement and the Notes to the Financial Statements.

The Financial Statements were prepared in compliance with article 2423 and following articles of the Italian Civil Code and they represent truthfully and correctly the financial position of the Company and the result for the period ended as of December 31st, 2016.

The Balance Sheet and Income Statement formats are compliant respectively with articles 2424 and 2425 of the Civil Code. Accounts bearing Arabic numerals that are not reported have a zero balance in both the current and previous year.

In the event that reclassifications have been deemed as necessary within the Balance Sheet or Income Statement, balances related to previous years have been reclassified accordingly.

The Notes to the Financial Statements include the prospects prepared in accordance with current legislation, or an explanation as to why they are not reported if missing.

The currency for all Financial Statements is the Euro.

The Financial Statements for the year are subject to external auditing by Deloitte & Touche S.p.A., following the three-year mandate (2014-2016) assigned to them by the Quotaholders' resolution dated 29 April 2014.

# BALANCE SHEET

21

ASSETS (in Euro)		31.12.2016	31.12.2015
A) Receivables from quotaholders		-	-
B) Fixed assets, with those in financial leasing indicated separately			
I. Intangible assets:			
4) concessions, licences, trademarks and similar		549,972	169,208
6) assets under construction and advances		814,458	26,800
7) other		941,963	1,075,517
Total		2,306,393	1,271,525
II. Property, plant and equipment:			
1) land and buildings		1,111,313,222	1,142,398,876
2) plants and equipment		950,006,915	992,228,875
3) industrial and commercial equipment		2,033,775	2,398,982
4) other assets		3,874,682	4,182,722
5) assets under construction and advances		1,453,689	1,789,206
Total		2,068,682,283	2,142,998,661
III. Financial assets			
Total		-	-
Total fixed assets (B)		2,070,988,676	2,144,270,186
C) Current assets			
I. Inventories:			
1) raw, auxiliary and consumer materials		14,857,343	12,843,333
5) advances		-	-
Total		14,857,343	12,843,333
	Amount due in more than one year		
	31.12.2016	31.12.2015	
II. Receivables:			
1) from customers	-	-	23,922,634
5-bis) tax credits	-	-	1,408,153
5-quater) other	-	-	4,909,907
Total			30,240,694
III. Short-term investments		-	-
IV. Cash and equivalent:			
1) bank accounts		8,954,248	27,310,701
3) petty cash		783	851
Total		8,955,031	27,311,552
Total current assets (C)		54,053,068	71,419,234
D) Accrued income and prepaid expenses			
- accrued income		777	1,528
- prepaid expenses		1,156,166	1,147,123
Total accrued income and prepaid expenses (D)		1,156,943	1,148,651
Total assets		2,126,198,687	2,216,838,071



LIABILITIES AND NET EQUITY (in Euro)		31.12.2016	31.12.2015
<b>A) Quotaholders' Equity</b>			
I. Capital		200,000,000	200,000,000
IV. Legal reserve		40,000,000	40,000,000
VI. Other reserves			
Additional paid-in capital		1,835,096,207	1,919,096,207
Reserve from net gains on foreign exchange		19,358	-
IX, Net Income (loss) for current year		28,916,723	30,867,818
<b>Total Quotaholders' Equity (A)</b>		<b>2,104,032,288</b>	<b>2,189,964,025</b>
<b>B) Reserves for Risks and Charges</b>		<b>385</b>	<b>15,385</b>
<b>C) Reserves for employee severance indemnities</b>		<b>417,310</b>	<b>389,804</b>
<b>D) Liabilities</b>	Amounts due after one year or more		
	31.12.2016	31.12.2015	
6) advances from customers	-	-	178,825
7) payables to suppliers	-	-	18,173,227
12) taxes payable	-	-	838,095
13) payables to social security and pension funds	-	-	678,352
14) other payables	-	-	1,072,656
<b>Total liabilities (D)</b>		<b>20,941,155</b>	<b>26,026,911</b>
<b>E) Unearned revenue and accrued expenses</b>		<b>807,549</b>	<b>441,946</b>
<b>Total liabilities (B+C+D+E)</b>		<b>22,166,399</b>	<b>26,874,046</b>
<b>Total Liabilities and Quotaholders' equity</b>		<b>2,126,198,687</b>	<b>2,216,838,071</b>

# INCOME STATEMENT

2.2

(in Euro)	31.12.2016	31.12.2015
<b>A) Value of production</b>		
1) earnings from sales and provision of services	234,644,051	262,466,805
5) other revenues and income	1,084,522	186,517
<b>Total value of production (A)</b>	<b>235,728,573</b>	<b>262,653,322</b>
<b>B) Cost of goods sold</b>		
6) raw materials, consumables and supplies	16,341,865	18,154,627
7) for services	87,445,137	106,714,938
8) for use of third-party assets	3,400,521	2,676,669
9) personnel costs:		
a) wages and salaries	8,185,479	7,887,660
b) company charges	2,632,150	2,562,182
c) employee severance fund	517,750	509,987
e) other costs	67,065	59,198
10) depreciation and write-downs:		
a) depreciation of intangible assets	322,450	244,720
b) depreciation of property, plant and equipment	75,875,703	75,753,456
11) changes in stock	(2,014,011)	(548,570)
14) other operating costs	775,773	3,240,854
<b>Total cost of goods sold (B)</b>	<b>193,549,882</b>	<b>217,255,721</b>
<b>Net value of production (A-B)</b>	<b>42,178,691</b>	<b>45,397,601</b>
<b>C) Financial income and expenses</b>		
16) other financial income	7,884	35,718
17) interests and other financial expenses	(8)	(146)
17-bis) foreign exchange gains and losses	(31,492)	(52,515)
<b>Total financial income (expenses) (C)</b>	<b>(23,616)</b>	<b>(16,943)</b>
<b>Earnings Before Taxes (A-B+C+D)</b>	<b>42,155,075</b>	<b>45,380,658</b>
20) deferred, current and prepaid income tax	(13,238,352)	(14,512,840)
<b>Net Income (loss) for current year</b>	<b>28,916,723</b>	<b>30,867,818</b>

# CASH FLOW STATEMENT

2.3

(in Euro)	31.12.2016	31.12.2015
<b>A) Cash flow from operating activities</b>		
Net Profit	28,916,723	30,867,818
Net Profit Adjustments:		
- Income taxes	13,238,352	14,512,100
Adjustments to reconcile net profit to net cash provided by operating activities:		
- Depreciation, depletion and amortization and other non monetary items	76,198,153	75,998,176
- Net gains on disposal of assets	9,550	1,816,875
- Provision for employees' end of service benefits and other provisions	517,750	509,987
Changes in working capital related to operations:		
- Inventory variation	(2,014,011)	(548,570)
- Receivable variation	2,044,293	(1,968,370)
- Payables variation	(843,811)	(5,943,209)
Changes to other assets and liabilities:		
- Deferred and prepaid taxes	(18,350,757)	(14,958,360)
- Provisions used	(505,244)	(448,124)
- Other changes	207,130	6,343,071
<b>Net cash flow from operating activities (A)</b>	<b>99,418,128</b>	<b>106,181,393</b>
<b>B) Cash flow from investing activities</b>		
Investments in intangible assets	(1,335,923)	(352,934)
Investments in property, plant and equipment	(1,590,266)	(4,077,542)
<b>Net cash flow from investing activities (B)</b>	<b>(2,926,189)</b>	<b>(4,430,476)</b>
<b>C) Cash Flow From Financing Activities</b>		
Dividends paid	(30,848,460)	(21,553,923)
Changes in equity: contributions / (refunds)	(84,000,000)	(80,000,000)
<b>Net cash flow from financing activities (C)</b>	<b>(114,848,460)</b>	<b>(101,553,923)</b>
<b>Net change in cash and cash equivalents (A+B+C)</b>	<b>(18,356,521)</b>	<b>196,993</b>
Cash and cash equivalents at the beginning of the year	27,311,552	27,114,559
Cash and cash equivalents at the end of the year	8,955,031	27,311,552

The Financial Statements at 31 December 2016 are consistent with the accounting entries.

For the Board of Directors

**The Chairman**

Homoud Fahad Homoud Sultan Al-Qahtani





# NOTES TO FINANCIAL STATEMENTS

## 2.4

### 2.4.1 Valuation criteria

As requested in the recently modified art.32 of Company By-Laws, these Financial Statements have been prepared in accordance with the provisions of the Italian Civil Code and with the National Accounting Standards issued by the Organismo Italiano di Contabilità (OIC). The valuation criteria applied in the preparation of the Financial Statements for the year ended 31 December 2016 have been updated in respect of those used for the Financial Statements of previous year, as a consequence of the incorporation of the directive 2013/34/EU with D.Lgs. n.139/2015 and consistent with OIC standards updated and issued in December 2016.

The implementation of the new accounting standards on assets and liabilities balances as of 1 January 2016 had no impact on Quotaholders' Equity nor on Income Statement at that date. As required by OIC 29, the Company has restated, accordingly to the new accounting principles, and only for comparison purposes, the Balance Sheet and the Income Statement for the year ended 31 December 2015.

Such restatement has implied uniquely, at 31 December 2015, the reclassification of the Income Statement section related to the extraordinary income and losses, consistent with its deletion from the Income Statement structure, and in particular:

- 740 euro of extraordinary losses were restated to 20) deferred, current and prepaid income taxes.

The valuation of the items in the Financial Statements was inspired by the general criteria of prudence and periodicity, in the context of business continuity.

Continuity in the application of valuation criteria over time is a requirement to ensure comparison of the Financial Statements published by the Company.

The application of the principle of prudence has led to the assessment of individual entries or asset or liability components.

In accordance with the principle of periodicity, each accounting entry should be allocated to a given period and split accordingly if covers several periods. In other words, business events have to be recognized and attributed to the accounting year to which such transactions refer to, and not the one in which the related financial transactions occur.



The valuation criteria adopted in these financial statements were the following.

### 2.4.1.1 Intangible assets

Intangible assets have been capitalized based on their purchase or internal production cost, including overheads and any other ancillary cost, adjusted by related depreciation funds and any monetary revaluation pursuant applicable law. Intangible assets use straight-line depreciation based on their estimated asset service life. Any installation and improvement costs, research and development or advertisement costs with multi-year use are capitalized in line with art. 2426 c.5 of Italian Civil Code and with the endorsement of Statutory Auditors if required. If there is a lasting loss of value, assets should be depreciated to reflect their residual value. The residual value is the highest value between the actual usage value of the assets and its fair value, net of sale costs. If the reasons leading to the write-down no longer exist, the value of the asset is recovered up to the value that the asset had had if the write-down had never taken place.

Costs of improvements of rented or leased assets are capitalized and recorded as Intangible assets - third party property improvements - as stated by OIC 24, if these improvements cannot be used autonomously.

Depreciation of such costs is done over the shorter period between the future usefulness of the expense and the residual rent or lease, also taking into account the possible renewal if it depends on the lessee.

The yearly depreciation rates applied are as follows because of the estimated asset service life, and partly as a result of the elevated obsolescence rates that technological assets usually suffer:

- software: with rate from 20 to 33%;
- other intangible fixed assets: with rate from 4 to 25%.

### 2.4.1.2 Tangible assets

Fixed assets have been capitalized based on their purchase or internal production cost, including direct, auxiliary and indirect overhead costs inherent to internal production in line with art. 2426 of Italian Civil Code. The costs of ordinary maintenance needed for the effective preservation of the asset are entirely expensed and booked in the year in which they occurred. Improvement costs are booked directly on the asset on which they were performed and depreciated over its residual useful life.

Costs incurred to expand, modernize or improve the structural elements of a tangible asset are capitalized if they produce a significant and measurable increase in production capacity, safety or life. If these costs do not produce these effects, they are treated as ordinary maintenance and expensed.

Assets currently in use, which have an economic value lower than the cost of depreciation, are written-down and aligned to its economic value. If the reasons leading to the write-down no longer exist, the asset is returned to its original value. Tangible fixed assets are systematically depreciated each year based on their financial and technical useful life which could not exceed the duration of the maritime concession.

The yearly depreciation rates applied are as follows:

- buildings: with rate 2.33%;
- plants and equipment: with rate from 2.33 to 10%;
- industrial and commercial equipment: with rate from 7 to 10%;
- other Tangible fixed assets: with rate from 4 to 20%.

*Note: 2.33% is used for assets whose useful life is expected to exceed the duration of the maritime concession.*

For the fixed assets, which have been completed and placed into operation during the financial year, the depreciation rate is adjusted, according to accounting standard OIC 16, assuming that the pur-



chases are evenly distributed over the year.

The assets with lower value whose service life is within the fiscal year have all been depreciated in the year when they came into operation.

Fixed assets under construction include tangible fixed assets in progress relating to systems and units for which construction and trial activities are still ongoing. Such categories represent a part of the Company's assets which do not contribute to generate revenue at the date of Balance Sheet. These items are booked according to the general principle detailed in art. 2426 of the Civil Code and as such are reflected at their purchase or production cost, similarly to operational assets.

According to estimates under long-term plans, these fixed assets will be able to generate sufficient revenues during their useful life to cover all costs and expenses incurred in the operation of the Company, including depreciations. Therefore, the Company has not taken steps to devalue these operational assets used in the production process.

Government grants are recognized when there is reasonable assurance that the Company will comply with the contractual conditions and that the grants will be received. In line with accounting principle OIC 16 the full amount of the Government grant is presented in the Balance Sheet as a credit against the recorded cost of assets, hence recognized in the Income Statement, as reduced depreciation costs, in line with the useful life of the qualifying assets.

### 2.4.1.3 Inventories

Inventories of raw materials, intermediates and finished goods are carried at the lower of acquisition or production cost and current market value, as per article 2426 of the Italian Civil Code.

Specifically, inventories of supplies are valued at weighted average cost. Inventories of LNG were valued at current market price while gasoil inventories at FIFO.

### 2.4.1.4 Accounts receivable and accounts payable

Receivables and payables starting from 1 January 2016 are reported according to the depreciated cost method, considering the time factor and, for receivables, at their estimated collectable value. Specifically, it is the depreciated cost method without discounting, having both receivables and payables due to be settled within twelve months. For those items booked in previous years and still having effects in the current Financial Statements, it has been decided for the option as per art.12 c.2 of D.Lgs. n.139/2015.

Liabilities for unused holidays and for employees deferred remuneration, together with the related amount due to social security institutions, are allocated on the basis of the amount that you should pay in case of termination of employment on the date of the Financial Statements.

Tax liabilities for the fiscal year are computed with applicable tax rates to the realistic estimate of the taxable income. In line with accounting standard OIC 25, taxes are shown in the Balance Sheet net of any relevant tax credits, tax prepayments and taxes withheld, and the resulting debit or credit is shown accordingly.

Receivables and payables in foreign currencies are valued with year-end exchange rates. Related unrealized foreign exchange gains or losses have been credited or debited to the income statement. Any foreign exchange gain reported in the income statement must be accrued as a separate reserve, which may not be distributed until the gain is realized.

Deposits for the use of third-party assets and for the supplies of services are recorded at their nominal value.



### 2.4.1.5 Accruals and deferrals

Accruals and deferrals refer to revenues or expenses covering a period multiple fiscal years and require to be reflected proportionally in line with OIC 18. Accrued income and expenses represent revenues and costs attributable to the fiscal year but having financial effects in subsequent years, deferred income and expenses represent revenues and costs which had its financial impact before the end of the fiscal year but attributable to subsequent fiscal years.

As for the accrued expenses and deferred income spanning over several years, the conditions that determined the original classification have been verified, entering the appropriate changes if the case.

### 2.4.1.6 Provisions for risks and charges

Provisions for risks and charges are recognized for a present obligation that at the end of the reporting period exists or it is more likely than not that an outflow of resources will be required to settle the obligation, but it is uncertain its timing or amount. A provision shall be recognized when a reliable estimate can be made of the amount of the obligation. Where it is not probable that a present obligation exists, an entity discloses a contingent liability in the Notes to the Financial Statements but no recognition of a provision is allowed.

### 2.4.1.7 Employee Severance Indemnity (ESI) fund

The Employee Severance Indemnity represents the total of accrued charges in favor of employees as per the current legal provisions, work contracts and possibly other Company agreements that were in place at year-end. As required by current legislation, such liability is subject to reassessment by way of indexes. The tax advances on the Employee Severance Indemnity was directly used to correct the Severance Indemnity's value in the books.

The ESI corresponds to the total of individual indemnities accrued by employees at the date of year-end closing, net of:

- payments made during the year due to employee severance;
- advances granted;
- INPS Guarantee Fund (0.50% of the monthly taxable wages) charged to the employee's ESI fund, as required by law;
- amount paid to complementary pension funds (representing the amount that would be recognized to employees in case of employee severance at a given date).

### 2.4.1.8 Obligations, guarantees and other commitments

The risks related to guarantees or commitments to third parties are reported in the Notes to Financial Statements as per decree 139/2015 for an amount equal to the nominal amount of the collateral provided.

In particular, this section includes guarantees provided directly or indirectly, separately listing sureties, endorsements and other personal guarantees, which are booked at the actual value of the commitment, as well as obligations deriving from contracts, and collateral provided which is shown at carrying value of the pledged assets or rights.



### 2.4.1.9 Revenue, income, costs, expenses, dividends and grants

Revenues and income are booked net of returns, discounts, allowances, bonuses and any taxes directly related to the sale of the products and the provision of the services in question.

Service revenues are recognized when the services are provided in accordance with the relevant contracts. On the basis of capacity contracts currently in force, the service is considered as rendered in the year in which there is the obligation to make capacity available, independently of its real utilization, being capacity allocation the main and predominant part of the regasification service. Further details are referenced in paragraph "F. Memorandum Accounts".

According to accounting principle OIC 8 the costs incurred to purchase CO<sub>2</sub> credits on the market are reflected in the financial year in which surrender obligations arise based on actual CO<sub>2</sub> emissions produced by the Company. At the end of financial year, if the balance between the CO<sub>2</sub> credits held by the Company and the actual CO<sub>2</sub> emissions shows a shortage, an accrual is recorded for the outstanding quotas to purchase and a liability with the relevant national authority. In case balance shows a long position, if the surplus is related to CO<sub>2</sub> credits purchased on the market, a prepaid expense is recorded in the year to adjust emission costs to be expensed in the next accounting period.

Financial income and expense are booked following the accrual date.

Capital contributions paid by the government or by public institutions pursuant to law, are recognized when all conditions of the grant are met.

### 2.4.1.10 Leasing

Assets subject to finance lease are carried on the basis of the asset method.

If applicable, an entity shall disclose in a specific section of the Notes to the Financial Statements additional information requested by law related to the finance lease agreement.

At the date of these Financial Statements there are no contracts that require disclosure of additional information foreseen by the art. 2427 no. 22 of the Civil Code.

### 2.4.1.11 Extraordinary income and costs

This section has been deleted in compliance with the new directive.

Impacts of the implementation of the new accounting principles are applied retroactively only for reclassification purposes.

### 2.4.1.12 Income taxes

Income taxes, corporate income tax (IRES) and regional taxes on productive activities (IRAP) for the fiscal year are determined on the basis of the estimated taxable income, according to current fiscal regulations. According to OIC 25, the resulting liability (net of advances, withholdings and other credits if they could be offset) is recognized in the Balance Sheet under "Taxes payable". If, as result of advance payments, a tax credit arises, this amount is recognized in the Balance Sheet under "Tax credits".

Deferred and prepaid taxes are determined on the temporary differences between the value of assets and liabilities on the Balance Sheet and the corresponding tax values recognized. Deferred tax assets and liabilities are determined under the applicable rates in the period in which the temporary differences arise; these amounts are updated in the



following periods to reflect any changes in the applicable tax rate at the end of each year.

Deferred tax assets should be recognized only if there is a reasonable certainty of their future recovery, whereas they are devalued if recoverability is in doubt. Deferred tax liabilities are recognized only when they arise from taxable temporary differences that produce an actual tax liability.

Deferred tax asset and liabilities are offset only when, under the tax laws, the taxpayer has the right to make such offsets for tax purposes. The resulting amount is posted to the "Reserve for current and deferred taxes", if it is a liability. If the result is a credit, it is posted to an asset account called "Deferred-tax assets".

#### *2.4.1.13 Criteria for the conversion of foreign currency items*

Assets and liabilities denominated in foreign currency non-monetary are recorded in the Balance Sheet at the exchange rate at the time of purchase, initial recording cost.





## 2.4.2 Comments to Balance Sheet entries

### Balance Sheet - Assets

#### B. Fixed assets

##### B.I Intangible assets

At the date of Balance Sheet, intangible assets were at 2,306k Euro, showing an increase by 1,035k Euro from 2015 mainly due to assets under construction and advances. The amount represents the sum of:

- 942k Euro as other intangible assets of which 778k Euro refer to improvements made to the new leased headquarters in Milan and the Porto Viro shore base and 164k Euro for the Company's IT infrastructure;
- 550k Euro for software and application systems for administrative and processing purposes;
- 814k Euro of asset under construction mainly regarding the Company's e-learning platform and a software related to the Loss Prevention System safety program.

The table below summarizes the overall changes occurred during the year:

(values in nominal Euro)	Concessions, licences patents, trademarks and similar	Assets under construction and payments on account	Other	Total
Values at 31.12.2015	169,208	26,800	1,075,517	1,271,525
Of which:				
Historical cost	3,678,577	26,800	5,594,034	9,299,411
Accumulated depreciation	(3,509,369)	-	(4,518,517)	(8,027,886)
<b>Net Value at 31.12.2015 (A)</b>	<b>169,208</b>	<b>26,800</b>	<b>1,075,517</b>	<b>1,271,525</b>
Changes in 2016:				
Purchases	518,054	787,658	51,607	1,357,318
Disposals	(1,025,545)	-	-	(1,025,545)
Disposals (acc. depr.)	1,025,545	-	-	1,025,545
Reclassifications	-	-	-	-
Depreciation	(137,290)	-	(185,161)	(322,450)
<b>Total Changes (B)</b>	<b>380,764</b>	<b>787,658</b>	<b>(133,554)</b>	<b>1,034,868</b>
Values at 31.12.2016 (A+B)	549,972	814,458	941,963	2,306,393
Of which:				
Historical cost	3,171,085	814,458	5,645,641	9,631,184
Accumulated depreciation	(2,621,113)	-	(4,703,678)	(7,324,791)
<b>Net Value at 31.12.2016</b>	<b>549,972</b>	<b>814,458</b>	<b>941,963</b>	<b>2,306,393</b>



### B.II Tangible assets

Total amount as of 31 December 2016 was at 2,068,682 Euro, reflecting a decrease of 74,316k Euro from previous year.

The table below summarizes the overall changes occurred during the year:

(value in nominal Euro)	Land and buildings	Plants and equipment	Industrial and comm. equipment	Other assets	Fixed assets in progress and payments on account	Total
<b>Values at 31.12.2015</b>	<b>1,142,398,876</b>	<b>992,228,875</b>	<b>2,398,982</b>	<b>4,182,722</b>	<b>1,789,206</b>	<b>2,142,998,661</b>
Of which:						
Historical cost	1,333,766,160	1,259,578,993	4,819,261	6,997,336	1,789,206	2,606,950,956
Accumulated depreciation	(191,367,284)	(267,350,118)	(2,420,279)	(2,814,614)	-	(463,952,296)
<b>Net Value at 31.12.2015 (A)</b>	<b>1,142,398,876</b>	<b>992,228,875</b>	<b>2,398,982</b>	<b>4,182,722</b>	<b>1,789,206</b>	<b>2,142,998,661</b>
<b>Changes in 2016:</b>						
Purchases	-	695,610	89,328	22,930	761,007	1,568,875
Disposals	-	-	(63,072)	-	-	(63,072)
Disposals (acc. depr.)	-	-	53,522	-	-	53,522
Reclassifications	-	983,635	-	112,889	(1,096,524)	-
Depreciation	(31,085,654)	(43,901,205)	(444,985)	(443,859)	-	(75,875,703)
<b>Total Changes (B)</b>	<b>(31,085,654)</b>	<b>(42,221,960)</b>	<b>(365,207)</b>	<b>(308,040)</b>	<b>(335,517)</b>	<b>(74,316,378)</b>
<b>Values at 31.12.2016 (A+B)</b>	<b>1,111,313,222</b>	<b>950,006,915</b>	<b>2,033,775</b>	<b>3,874,682</b>	<b>1,453,689</b>	<b>2,068,682,284</b>
Of which:						
Historical cost	1,333,766,160	1,261,258,238	4,845,517	7,133,155	1,453,689	2,608,456,759
Accumulated depreciation	(222,452,938)	(311,251,323)	(2,811,742)	(3,258,473)	-	(539,774,475)
<b>Net Value at 31.12.2016</b>	<b>1,111,313,222</b>	<b>950,006,915</b>	<b>2,033,775</b>	<b>3,874,682</b>	<b>1,453,689</b>	<b>2,068,682,284</b>

Tangible fixed assets consist of the following:

- 1,111,313k Euro in “Land and buildings” are primarily related to the concrete structure of the terminal (Gravity Based Structure - GBS), with adjoining buildings to appliances modules (topsides) installed on GBS and at the Cavarzere metering station;
- 950,007k Euro in the category “Plants and equipment” reflect the units/systems employed in the regasification process among which there are mainly the two LNG storage tanks and the under-sea/onshore gas pipelines, each including the



minimum LNG operating level and the LNG loading arms;

- 2,034k Euro in the category “Industrial and commercial equipment” are mainly referred to the fire and laboratory equipment present at the Cavarzere metering station and on the terminal;
- 3,875k Euro in the category “Other assets” reflect the furnishing of offices and local units of the Company, the lifeboat located on the terminal, electric and manual trolleys, office machinery, electrical and electronic equipment and other computer equipment located on the terminal;
- 1,454k Euro for fixed “Assets under construction” reflect expenditures related to minor projects that at the date of balance sheet are not yet completed and placed into operation.

As per previous years, the Company deemed appropriate to request a leading firm, specialized in asset valuation, an assessment on the tangible assets adequacy and fair value. This independent value assessment was based on the comparative method (or market) valuation criteria as reference point, even though valid for a limited group of assets, and/or on the replacement cost method, which provides a cost estimate for the complete replacement of the analyzed asset. Therefore, the value assessment conducted with the above mentioned criteria was not affected by any future factors such as the expected return from these assets. The independent report resulted in an assets fair value higher than their historical cost. In compliance with legal requirements and accounting standards (OIC 9), tangible assets are reflected within the Balance Sheet at their acquisition or production cost.

## C. Current assets

At the date of Balance Sheet, current assets totaled 54,053k Euro, down by 17,366k Euro from previous year. Additional details and balances are included in the following.

### C.I Inventory

As of 31 December 2016 total inventory was at 14,857k Euro with an increase of 2,014k Euro from 2015. This amount reflects the following categories:

- 11,574k Euro related to spare parts for recurring use on the terminal;
- 3,226k Euro for LNG inventory for purchases in kind from the terminal users and required to ensure the operation of the infrastructure;
- 57k Euro related to inventories of gasoil used on the terminal for the auxiliary power systems.

	Raw materials, subsidiary materials and consumables	Total Inventory
Value at beginning of the year	12,843,333	12,843,333
Variation of the year	2,014,010	2,014,010
<b>Value at the end of the year</b>	<b>14,857,343</b>	<b>14,857,343</b>



## C.II Receivables

Total receivables were at 30,241k Euro, down by 1,024k Euro from 2015, all due to be settled within 5 years.

	Receivables from customers	Receivables from Tax Authorities	Other Receivables	Total Receivables
Value at beginning of the year	25,975,219	317,333	4,971,796	31,264,348
Variation of the year	(2,052,585)	1,090,820	(61,889)	(1,023,654)
<b>Value at the end of the year</b>	<b>23,922,634</b>	<b>1,408,153</b>	<b>4,909,907</b>	<b>30,240,694</b>
Receivables due over 5 years	-	-	-	-

The table below details the geographical composition of the receivables:

	Total	Italy	Abroad
Receivables from customers	23,922,634	19,774,309	4,148,324
Receivables from controlled companies	-	-	-
Receivables from affiliated companies	-	-	-
Receivables from parent companies	-	-	-
Receivables from Tax Authorities	1,408,153	1,408,153	-
Credits for prepaid taxes	-	-	-
Other Receivables	4,909,907	4,909,907	-
<b>Total Receivables</b>	<b>30,240,694</b>	<b>26,092,369</b>	<b>4,148,324</b>

### 1) From customers

Receivables from customers were at 23,923k Euro and are mainly due to:

- 16,635k Euro for regasification services to users;
- 6,323k Euro for transportation costs and access fees to the national grid recharged to users including related Use & Loss for national grid operations;
- 333k Euro related to Operational Balancing Agreement (OBA) with Snam Rete Gas in force from November 2016;
- 383k Euro represent recharge to the users for the terminal Losses and Consumption;
- 179k Euro for marine services related to one LNG berthing occurred at the beginning of January 2017.

### 4-bis) Tax credits

I crediti tributari ammontano a 1.408 migliaia di Tax credits for 1,408k Euro, increasing of 1,091k Euro, are related to:

- 993k Euro related to the payable amount for income taxes net of advances paid during the year, of which 869k Euro of IRES and 124k Euro of IRAP;
- 375k Euro related to excise duty for reimbursement by the Customs Agency;
- 40k Euro due to the IRES refund request filed as per Law Decree 201/2011.



#### 5-quater) Other receivables

Other receivables totaling 4,910k Euro of which:

- 4,586k Euro from the Ministry of Environment related to CO<sub>2</sub> free allowances granted to the Company that could not be released due to lack of available rights from the Italian Government. This particular situation has been ruled by Law Decree 72/2010, which assigned to AEEG the responsibility to define the criteria to determine CO<sub>2</sub> credits owed to “new entrants” operators, and that has been annually resolved actual value of such credits. In January 2015 the Company has sent to Ministry of Economic Development request of reimbursement for such credits as required by decree of 21 February 2014;
- 324k Euro for advances mainly related to advance payments for the Milan office lease and for Customs duties, and for deposits paid as guarantees for the lease contracts, the works in concession for the construction of the gas pipeline and other utilities.

Given that there are no foreseen risks related to the collection of the above-mentioned receivables, the Company does not deem to account for any write-down.

#### C.IV Cash and equivalent

Balance as of 31 December 2016 was at 8,955k Euro, which is a decrease of 18,357k Euro with respect to previous year. This value mainly reflects the year-end bank account balance.

	Bank accounts	Cheques	Cash	Total Cash and equivalents
Value at beginning of the year	27,310,701	0	851	27,311,552
Variation of the year	-18,356,453	0	-68	-18,356,521
<b>Value at the end of the year</b>	<b>8,954,248</b>	<b>0</b>	<b>783</b>	<b>8,955,031</b>



### D. Accrued income and prepaid expenses

Total is at 1,157k Euro with an increase of 8k Euro with respect to previous year amount.

It mainly represents the deferral of insurance premium paid in 2016 and covering the period June 2016 - May 2017 (925k Euro). Other items included refer to the deferral of membership contributions, other minor insurance premiums, bank guarantee fees, telecom and other services subscription.

	Discount on loans	Accrued income	Prepaid expenses	Total Accrued income and Prepaid expenses
Value at beginning of the year	-	1,528	1,147,123	1,148,651
Variation of the year	-	-751	9,043	8,292
Value at the end of the year	-	777	1,156,166	1,156,943

## Balance Sheet - Quotaholders' Equity and liabilities

### A. Equity

Equity amounted to 2,104,032k Euro, with a decrease of 85,932k Euro from previous year.

Movements occurred during the year are reflected in the table below:

	Capital stock	Legal reserve	Other Reserves			Profit (loss) of the year	Total equity
			Quotaholders' additional equity contributions	Reserve for exchange rate gains	Total other reserves		
Starting balance	200,000,000	40,000,000	1,919,096,207	-	1,919,096,207	30,867,818	2,189,964,025
<b>Destination of the result of the previous year</b>							
Dividends				19,358	19,358	-30,867,818	-30,848,460
Other use							
<b>Other variations</b>							
Addition							
Decreases			-84,000,000		-84,000,000		-84,000,000
Reclassification							
Profit of the year						28,916,723	28,916,723
<b>Ending balance</b>	<b>200,000,000</b>	<b>40,000,000</b>	<b>1,835,096,207</b>	<b>19,358</b>	<b>1,835,115,565</b>	<b>28,916,723</b>	<b>2,104,032,288</b>





The legal reserve remained unchanged to one fifth of the share capital, equivalent to 40,000,000 Euro. Other reserves were at 1,835,115,565 Euro as per below details:

- 1,824,302,398.49 Euro as per-quota additional equity contributions by the Quotaholders following the Financial Plans approved by the Board of Directors (BoD). Current year reduction of 84,000,000 Euro is due to the partial and proportional restitution of the reserve as per Board of Directors' resolutions on 10 December 2015 and 26 April 2016 and in line with the 2016 Financial Plan timeline, in compliance with related Quotaholders' resolutions on 20 January 2016, and without prejudice to creditors;

- 10,793,808.23 Euro as equity of 2 May 2005 contribution by Edison S.p.A. for extinguishing their financial inter-company receivables in line with the 2 May 2005 agreement.

	Total	Quotaholders' additional equity contributions	Reserve for exchange rate gains
Amount	1,835,115,565	1,835,096,207	19,358

During 2016 and according to Quotaholders' resolution dated 26 April 2016 a total amount of 30,848k Euro has been paid to Quotaholders in the form of dividends.

Information requested as per art. 2427 n. 7-bis of Civil Code are provided in the following tables.

	Amount	Source / nature	Possibility of use	Quota available for distribution	Summary of uses in the three previous years	
					to cover losses	for other reasons
<b>Capital reserves</b>	<b>200,000,000</b>	<b>Shareholders' contributions</b>				
<b>Legal reserve</b>	<b>40,000,000</b>	<b>Shareholders' contributions</b>	<b>For coverage of losses</b>	<b>40,000,000</b>		
<b>Other reserves</b>						
Additional paid-in capital	1,835,096,207	Shareholders' contributions	For a capital increase; for coverage of losses; for distribution to Quotaholders	1,835,096,207		275,200,000
Reserve from net gains on foreign exchange	19,358	Net income	For a capital increase; for coverage of losses; for distribution to Quotaholders	19,358		7,405
Total other reserves	1,835,115,565			1,835,115,565		275,207,405
Income/(losses) for the year	28,916,723	Net income	For a capital increase; for coverage of losses; for distribution to Quotaholders	28,916,723		75,649,913
<b>Total</b>	<b>2,104,032,288</b>			<b>1,904,032,288</b>		<b>350,857,318</b>
Non-distributable portion	240,000,982			40,000,982		
Quota available for distribution	1,864,031,306			1,864,031,306		



	Total	Additional paid-in capital	Reserve from net gains on foreign exchange
Amount	1,835,115,565	1,835,096,207	19,358
Source / nature		Shareholders' contributions	Net income
Possibility of use		For a capital increase; for coverage of losses; for distribution to Quotaholders	For a capital increase; for coverage of losses; for distribution to Quotaholders
Quota available for distribution	1,835,115,565	1,835,096,207	19,358
Summary of uses in the three previous years to cover losses			
Summary of uses in the three previous years for other reasons	275,207,405	275,200,000	7,405

### B. Funds for risks and reserves

During 2016 it has been used the provision recognized last year for a potential fine of 15k Euro from the Rovigo Prefecture that was settled with the payment of an amount lower than the one originally recognized.

On 22 December 2016 the Company received a tax calculation notice issued by the Porto Viro municipality (Rovigo) for 2010 ICI/IMU (property) tax related to the Terminal site for a total amount of 3,642k Euro (of which 3,009k Euro base tax and 632k Euro interest). The tax assessment notice was issued on the basis of three recent judgments of the Supreme Court (Corte di Cassazione) that ruled oil platforms in territorial water subject to ICI/IMU.

Given the peculiarities of assessed tax, the Company appointed a preeminent tax consulting firm after the data request from the municipality since last June 2016.

Following the analysis carried out and insights executed, taken into account the current legislation, the resolution of the Finance Ministry of 1 June 2016, the role of the terminal in national and international energy development strategies and the opinion provided by the tax consultant, the Company assessed there are solid arguments to support that no ICI/IMU tax is due for the terminal and decided to challenge the tax assessment notice by filing an

appeal on 20 February 2017 to the Provincial Tax Commission of Rovigo.

Therefore, based on the conclusions drawn by the tax consultant opinion and according to Italian Accounting Standard OIC 31 requirements, no provisions has been recognized in these Financial Statements.

To be noted that during 2015, as disclosed in the relevant section "Funds for risks and reserves" of the 2015 Notes to the Financial Statements, the Company completed the assessment regarding potential restoration costs as requested by AEEGSI, obtaining by an independent engineering consultant company a technical appraisal aimed to update the estimate of potential restoration costs, and, by a leading firm in the sector, a study drawing long term scenarios of energy and gas consumption, which confirmed correctness of the assumption that the terminal will still be of strategic importance to the diversification and supply of the European and Italian energy system in 2052 and beyond. Lastly, to complete such comprehensive and complex analysis, the Company obtained, from a preeminent consultant firm, an opinion on civil law, administrative and accounting aspects for this risk. Based on the outcome of above mentioned analysis and studies, the opinion concluded that the risk should be assumed as remote.



During 2016 there were no significant events that would trigger the need to revisit and update the aforesaid analysis, thus the Company holds those conclusions still valid in regard to the long term energy outlook and the opinion on civil law, administrative and accounting aspects. Therefore, according to OIC 31 requirements, did not recognize any provision for potential restoration costs in these 2016 Financial Statements.

The Company, with the aim to opportunely monitor the risk evolution, currently assumed as remote, will request, in case of significant events, a periodic update of both the technical appraisal and the long-term energy outlook.

The Company made no provisions for risks arising from other open disputes.

In addition, the Company, on the basis of multi-year plans approved by the Board of Directors did not deem necessary to make any provisions for the Make-Up balance as explained in the relevant Memorandum Accounts section, as the possibility that all the various and concomitant conditions are in place for the exercise by users of the Make-Up balance accumulated as of 31 December 2016 is remote and an eventual future utilization of the Make-Up balance would not generate significant additional costs.

	Provisions for pensions and similar obligations	Tax Provision, including deferrals	Other funds	Total funds for risks and expenses
Starting balance	-	-	15,385	15,385
<b>Annual variation</b>				
Accruals	-	-	-	-
Use	-	-	15,000	15,000
Other variations	-	-	-	-
Total variations	-	-	-15,000	-15,000
<b>Ending balance</b>	-	-	<b>385</b>	<b>385</b>



### C. Employee Severance Indemnity fund

Total was at 417k Euro with an increase of 28k Euro with respect to the previous year. Additional details and breakdown are reflected in the table below:

Severance Indemnity Fund	
Starting Balance	389,804
<b>Variations during the year</b>	
Accruals	517,750
Use	-22,788
Other Movements	-467,456
Total variations	27,506
<b>Ending Balance</b>	<b>417,310</b>

The balance of this account reflects the payable amount to employees net of those amounts transferred to the complementary pension funds (Alleanza Previdenza, Fondo Energia, Previdai and Mediolanum Vita).

The accruals refer, on the other hand, to all the contributions paid to both the Employee Severance Indemnity (ESI) funds and complementary pension schemes.

### D. Liabilities

Liabilities were at 20,941k Euro, down by 5,086k Euro from previous year.

There are no payables due in more than five years. Additional details and breakdown are reflected in the table and commentary below:

	Advance payments from customers	Payables to vendors	Taxes payables	Payables to social security	Other payables	Debts
Starting balance	357,649	19,203,815	4,859,680	560,924	1,044,842	26,026,910
Annual variation	-178,824	-1,030,588	-4,021,585	117,428	27,814	-5,085,755
Ending balance	178,825	18,173,227	838,095	678,352	1,072,656	20,941,155
Of which due after five years	-	-	-	-	-	-



These liabilities are split between geographic areas as summarized in the table below:

	Total	Italy	Abroad
Advance payments from customers	178,825		178,825
Payables to vendors	18,173,227	16,889,228	1,283,999
Taxes Payables	838,095	838,095	
Payables to Social Security	678,352	678,352	
Other Payables	1,072,656	1,063,206	9,450
<b>Debts</b>	<b>20,941,155</b>	<b>19,468,881</b>	<b>1,472,274</b>

#### D.6 Advance payments from customers

Total balance of 179k Euro relates to the prepayment for marine services for one LNG berthing occurred at the beginning of January 2017.

#### D.7 Payables to suppliers

The amount due to suppliers was 18,173k Euro, a decrease of 1,031k Euro from 2015.

Analysis of main items as follows:

- 6,325k Euro reflect payables to Snam Rete Gas for the transportation and grid access costs and the transfer of gas for self-consumption purposes, grid leaks and unrecorded gas related to the distribution grid, in conformity with the decisions ARG/gas 184/09 and ARG/gas 218/2010; these costs have been recharged to the terminal's users;
- 5,693k Euro relating to provisions for services and materials supplied by vendors but not yet invoiced;
- 3,825 k Euro relating to invoices for professional and technical service providers;
- 1,108k Euro refer to payables to users related to the transfer of gas used by the terminal, in conformity with the decisions ARG/gas 92/08, 625/2015/R/gas and payables to the users for transportation and grid access costs and gas transfer for self-consumption purposes, grid leaks and unrecorded gas related to the distribution grid, in conformity with AEEG decisions ARG/gas 184/09 and 606/15/R/gas;



- 906k Euro relating to professional and technical services provided by ExxonMobil Qatar Inc. under the Services Agreement signed with the Quota-holders;
- 317k Euro referring to the portion of CO<sub>2</sub> emission allowances to be purchased in advance of actual surrender due by 30 April 2017.

#### D.12 Tax payables

Amounted to 838k Euro, a decrease of 4,022k Euro compared to previous year, and are mainly related to:

- 492k Euro for withholding taxes mainly related to withholdings for employees salary income payable in the following month;
- 291k Euro is the VAT debit relating to the ordinary activity of the Company, as resulting from December 2016 settlement and paid during January 2017;
- 55k Euro refer to payable for excise duties.

#### D.13 Payables to social security and pension funds

As of 31 December 2016, total amount was 678k Euro, reflecting an increase of 117k Euro compared to previous year. It reflects the total of social contributions and insurance due by the employer and by the employees (contributions already withheld under existing legislation). These payables are all due within the following year and most are paid to the respective social security institutions within the coming month the obligation arises.

#### D.14 Other payables

Other payables were at 1,073k Euro, increasing by 28k Euro from previous year.

Main items included are accruals for invoices to be received and rendered services, for which the following detail is provided:

- 577k Euro related to Productivity Premium in accordance with Company Agreement, T&E expenses and overtime accruals;
- 496k Euro related to employees' vacation days carried forward and other accruals.

#### E. Unearned revenue and accrued expenses

Unearned revenue and accrued expenses were at 808k Euro and are mainly due to the 2017 portion of the fixed fee for the flexibility services signed by users of the terminal.

	Accrued liabilities	Fees on loans	Deferred revenues	Total accrued liabilities and deferred Income
Starting balance	-	-	441,946	441,946
Annual variation	-	-	365,603	365,603
<b>Ending balance</b>	<b>-</b>	<b>-</b>	<b>807,549</b>	<b>807,549</b>





## 2.4.3 Comments to the Income Statement

### A. Value of production

	Value of production (category details)								
	Total	Regasification	Regasification gas self-consumption	Marine services	Recharge for booked capacity	Recharge for send-out to the grid	Sale of gas grid own consumption	Operational Balancing Agreement	Other revenues and incomes
Total value	235,728,573	167,327,709	10,614,680	11,444,780	14,398,159	29,613,476	931,683	313,565	1,084,522

	Value of production (geographic area)		
	Total	Italy	Abroad
Total value	235,728,573	223,858,764	11,869,810

#### A.1. Earnings from sales and services

Amounted to 234,644k Euro, with a decrease of 27,823k Euro from 2015.

The main items making up the revenues figures are analyzed below:

- 167,328k Euro for regasification services including capacity charge, measurement and flexibility services;
- 10,615k Euro for services rendered to users offsetting the LNG purchased in kind for losses and consumption;
- 11,445k Euro of revenues relating to marine services provided to enable the berthing of 50 LNG carriers at the terminal;
- 44,943k Euro for recharge of costs incurred in the provision of transportation services, including 2,288k Euro relating to the sale of gas for grid self-consumption as per resolution 608/14/R/gas;
- 314k Euro related to the Operational Balancing Agreement (OBA) in force from November 2016.

Revenues from the regasification services include 66,162k Euro related to the capacity made available and not utilized by the users that has generated a



corresponding increase of Make-Up balance. Further details are provided in paragraph “Obligations, guarantees and other commitments”.

#### A.5. Other revenues

Other revenues and income for 1,085k Euro concern mainly to normal contingent assets resulting from the adjustments of expense accruals of the previous years, according to accounting standards (OIC 29) in addition to revenues related to the charge out of labor costs for personnel seconded to other companies.

#### B. Cost of production

Cost of production was at 193,550k Euro, decreased by 23,706k Euro from 2015.

#### B.6 Raw materials, consumables and supplies

Totaled 16,342k Euro and reflects a decrease of 1,813k Euro from 2015.

This mainly refers to transfers of the LNG in kind from users required for the regasification process and the charge related gas grid self-consumption for a total of 11,546k Euro, 343k Euro to gas purchases related to maintenance activities (SDV project) and 312k Euro to the Operational Balancing Agreement (OBA) introduced in November 2016 with the Transmission System Operator of gas grid; remaining 4,452k Euro are due to purchases of technical materials, office supplies, fuel and other materials required for operational activities at the Porto Viro shore base, the terminal and Milan office.

#### B.7 Services

Service charges were at 87,445k Euro, decreased by 19,270k Euro from previous year. The following provides the details for the total cost for services:

- 44,012k Euro for transportation grid capacity and variable transportation;
- 19,120k Euro for professional and technical assistance and services for the day-to-day management of the Company of which 6,173k Euro rendered by the Quotaholders and/or their affiliated companies (ExxonMobil Qatar Inc.) within the framework of the Service Agreement and include costs for seconded personnel and technical-professional assistance. The remaining 12,947k Euro relates to technical, engineering and administrative services provided by third parties of which the main items refer to 4,160k Euro for professional services, 2,852k Euro relating to the costs of environment monitoring activities, lab analyses and inspections, 2,266k Euro for consultancies, 2,119k Euro for information technology services, 711k Euro for services from lawyers and notaries, 292k Euro for surveillance services, 234k Euro for fees to Statutory Auditors, Auditing Company and Guarantor and 314k Euro for other services;
- 8,711k Euro for piloting, mooring and towing services;
- 5,544k Euro for maintenance and repair services;
- 3,699k Euro for helicopter, sea and ground transportation services, personnel and cargo to the terminal, weather forecasting services, customs services;
- 2,376k Euro for miscellaneous services, such as canteen, cleaning and disinfecting, waste management, garage and custodian fees, costs, purchase of utilities for the Milan and Porto Viro offices and for the terminal;
- 2,318k Euro mainly for operating insurance costs;
- 1,158k Euro for healthcare services, technical and professional training and additional personnel costs;



- 291k Euro mainly due to communication and sponsorship costs for local community projects and activities;
- 217k Euro for general costs such as postal, telephone and radio charges (197k Euro), bank fees and commissions on guarantees (20k Euro).

### B.8 Use of third party assets

During 2016 these expenses were at 3,401k Euro, up by 724k Euro from 2015.

Main items refer to the following rentals:

- 1,376k Euro mainly for the Milan office and the Porto Viro shore base;
- 1,147k Euro for containers, electric trucks, cranes and other equipment at the Porto Viro shore base and the terminal;
- 24k Euro for vehicles and office equipment.

The remaining amount of 854k Euro mainly refers to the yearly fee related to the fifty-year maritime concession for terminal location (752k Euro) and other easements or rights of way.

### B.9 Personnel

Amounted to 11,402k Euro, increased by 383k Euro compared to previous year and reflects the salary escalation and the implementation of approved staffing plan.

### B.10 Depreciation and write-downs

Total depreciation is worth 76,198k Euro, up by 200k Euro from previous year and comprising the following items.

#### Depreciation of intangible assets

Amounted to 322k Euro and relate for 137k Euro to the depreciation of software licenses, for 124k Euro to the improvements to third party assets for the establishment of offices leased by the Company and for 61k Euro for other intangible assets.

#### Depreciation of property, plants and equipment

Amounted to 75,876k Euro and relate to 31,086k Euro for buildings, 43,901k Euro for plant, machinery and pipelines, 445k Euro for other tangible fixed assets, and 444k Euro for industrial and commercial equipment. The analysis and valuation process of fixed assets and debts did not determine the need for depreciation in values carried at cost.

### B.11 Changes in stock

In 2016 there was a positive net change in stock of raw materials and consumables amounting to 2,014k Euro. This is related for an amount of 2,075k Euro related to the increase of LNG inventory, partially offset by negative variation of 50k Euro of inventory spare parts and 11k Euro for gasoil consumption. According with the national accounting standards (OIC 13), the inventory valuation is carried at the lower of acquisition or production cost and current market value. Specifically, inventory of LNG has been valued at current market price while gasoil inventories at FIFO.



### B.13 Other accruals

No accruals has been recorded during the year. Further details are reported in section “Balance Sheet - Liabilities - B. Funds for risks and reserves”.

### B.14 Miscellaneous operating costs

Amounted to 776k Euro, with a decrease of 2,465k Euro compared to previous year, and do primarily refer to emission trading costs (303k Euro), events and entertainment expenses (63k Euro), contributions to associations (132k Euro), indirect taxes and charges (120k Euro) and other costs (157k Euro).

## C. Financial income and expenses

Financial income and expenses show a net loss of 24k Euro, compared to the 17k Euro recorded in 2015. They can be broken down into the following items.

### C. 16 Other financial revenue

Amounted to 8k Euro down by 28k Euro from 2015, and are mainly related to interest income on bank account.

### C.17 Interest and other financial expenses

Totaled to 8 Euro, in line with last year. These are related to interest applied by suppliers.

### C.17 bis) Foreign exchange gains and losses

During the year adverse exchange rate fluctuations resulted in net loss of 31k Euro which compares to 53k Euro in 2015. The amount is the net of gains and losses on foreign exchange operations realized (net loss of 32k Euro) and unrealized (net gain estimated at 1k Euro).

Between 2016 year-end and the preparation of these Financial Statements there have been no significant changes in the foreign exchange rates of the foreign currency items booked. During the year, foreign currency transactions were mainly related to good and service purchases carried out in US Dollars and, to a lesser degree, in British Pounds and Norwegian Krone.

## 20) Income taxes

Income taxes amounted to 13,238k Euro net of a positive adjustment of 138k Euro related to previous years' direct taxes.

With reference to the IRES tax, the Company reported a positive taxable income equal to 42,455k Euro, resulting in current year tax payable for 11,675k. For comprehensive reporting purposes, no significant difference has been recorded in 2015 between the actual tax rate and the theoretical one.

With reference to the IRAP tax, the Company reported a positive taxable income and thus made provisions for a total of 1,701k Euro in 2016. The difference recorded between the actual IRAP tax rate at 4,04% and the theoretical one (3,90%) is not significant.

During the year no taxes have been recognized for temporary differences due to very limited significance.

During the years 2015 and 2016 there was no use of prepaid or deferred income taxes.



#### 2.4.4

### Comments to the Cash Flow Statement

Free cash flow totaled 99,418k Euro, down by 6.8M Euro from 2015. Although the Company has access to liquidity capacity, internally generated funds covered its financial requirements resulting in unused credit lines for short-term financing. Further details are provided in the Cash Flow statement, determined using the indirect method, drawn up in line with the provisions of accounting principle OIC 10.

The Company financial strength can be summarized by the following financial ratios:

- Debt/Equity equal to zero;
- Equity/Assets equal to 1.02.

## OTHER INFORMATION

2.5

### Relevant events occurring after year-end

No relevant events to report at present.

### Receivables and payables due in more than five years and payables covered by secured guarantees

There are no payables or receivables due in more than five years or any payables backed by secured guarantees on Company assets.

### Personnel details

The following table shows the number and the average number of employees of the Company separately for qualification (excluding secondees):

	Managers	Supervisors	Employees	Workers	Other personnel	Total
Average headcount	2	15	79	15	0	111





## Fees to the Board of Directors and Statutory Auditors

No remuneration was resolved for the Board of Directors, while the Quotaholders' meeting on 29 April 2014 resolved the following fees to the Statutory Auditors:

- 46,000 Euro to the Chairman;
- 34,000 Euro to each of the acting Auditors.

Furthermore, according to the Board of Directors resolution dated 8 June 2016, it has been set an annual fee amounting to 15,000 Euro to each of the Statutory Auditors confirmed to act as a joint board for the Guarantor role as per AEEGSI requirements. Reimbursable expenses amount for 2016 were at 3,543 Euro.

	BoD members remuneration	Statutory a auditors fees	Total
Amount	0	168,903	168,903

## Fees to the Auditing Company

According to the Quotaholders' resolution on 29 April 2014, the following fees applied to the Auditing Company:

- 41,000 Euro for the audit of the yearly Financial Statements;
- 10,650 Euro for the review of correct book keeping activities and fiscal declarations;
- 5,300 Euro for the audit of unbundling accounting, in accordance with AEEGSI resolution 11/07.

Further provisions to the Auditing Company were related to the following activities:

- 5,300 Euro for the audit of the attestation for yearly revenues, in accordance with AEEGSI resolution ARG/gas 92/08.

Finally, during the year 3,114 Euro were paid as reimbursable expenses.

	Audit of the yearly Financial Statements	Other auditing services	Fiscal services	Other services in addition to auditing	Total fees of the audit company
Amount	41,000	21,250	0	3,114	65,364

## Obligations, guarantees and other commitments

Obligations, guarantees and other commitments were at 671,799k Euro, with an increase of 50,667k Euro from the previous year, and refer to guarantees received and issued, and commitments by the Company as specified below.

### Guarantees received

Long term guarantees:

- 100k Euro relating to the guarantee issued to the Company by other suppliers.

Short term guarantees:

- 18,145k Euro relating to the guarantee issued to the Company following the allocation of regulated capacity;
- 480k Euro relating to the guarantee issued to the Company by other suppliers;
- 1,000k Euro related to guarantees issued to the Company following the Peak Shaving service.

### Guarantees issued

Long term guarantees:

- 9,550k Euro relate to the guarantee issued in favor of the Ministry of Transportation for the fifty-year concession of the parcel of territorial waters where the off-shore terminal is placed;
- 10,058k Euro relate to the guarantees requested by Snam Rete Gas to cover the obligations deriving from the transport contract;
- 90k Euro relate to other guarantees requested by third parties for the pipeline construction.

Short term guarantees:

- 1,367k Euro relate to the guarantees requested by Snam Rete Gas to cover the obligations deriving from the transport contract.



### Obligations

- 140,363k Euro relate to the transportation agreement, for a period of 25 years, with Snam Rete Gas and Infrastrutture Trasporto Gas (former Edison Stoccaggio) to guarantee the transportation capacity necessary for the transfer to the supply system of up to 21 million standard cubic meters per day, equivalent to 80% of the maximum estimated regasification capacity;
- 99,772k Euro relate to the 25-year agreement with Adriatic Towage for towage services provided by 4 tugs;
- 17,235k Euro relate to the 20-year agreement (with an option for five additional years) with Bambini for the Crew Supply Vessels in use from/to the Porto Viro shore base and the terminal;
- 5,859k Euro relate to 15-year agreement for mooring services, to be supplied by a temporary joint venture between the mooring groups of Chioggia, Ravenna and Venice;
- 364,104k Euro relate to the Make-Up balance, up by 66,162k Euro compared to 2015. The Make-Up balance represents a future and uncertain commitment, in its likelihood, quantity and timing, corresponding to the monetary amount resulting from the non-use of the capacity available and matured in competent years since the beginning of the capacity contract, up to year-end 2015. Such balance allows the user to ask the Company to apply for new capacity by compensating the Make-Up balance. The eventual use of the balance is subject to a number of conditions, such as: (i) capacity available for users at the terminal; (ii) a concomitant request for additional quantities exceeding the contract quantities; (iii) no released capacity over the year, and (iv) if the requested quantity is equal to or higher than other requests received. Once all these conditions have been satisfied, the monetary value of the Make-Up balance can be only used to reduce the applicable tariff in order to cover the service's fixed charges. On the basis of capacity contracts

currently in force, the service is considered as rendered, in the year in which there is the obligation to make capacity available, independently of its real utilization, being capacity allocation the main and predominant part of the regasification service. A positive Make-Up balance at contract expiration date does not give title to any monetary or residual regasification service commitments. Further details are referenced in paragraph "B. Funds for risks and reserves";

- 3,675k Euro relate to the 15-year agreement for piloting services, for the LNG tankers upon arrival to the terminal, with the Corporation of Pilots of Chioggia and Porto Levante.

Other obligations not reflected in above memorandum accounts (pursuant to art. 2427 n.9 Italian Civil Code):

- obligation to regasify and redeliver to the users the LNG in stock at the date of the Balance Sheet totaling 93,045 m<sup>3</sup> of LNG;
- obligation, pursuant to art. 3 of AEEG resolution 438/2013/R/Gas, to include a total of 21,907 m<sup>3</sup> of LNG in the computation of the terminal's losses and consumptions tariff applicable to terminal users.

### Revaluations

The Company has not made re-evaluations on assets, therefore no details are provided.

### Information pursuant to art. 2427 bis of Civil Code on financial instruments

During the year the Company did not issue or hold any derivative financial instrument.



### Relations with controlled, affiliated, controlling companies, companies controlled by parent companies

The disclosure requirements pursuant to art 2435-bis, with regard to “Parent companies relations”, is included in the relevant section of the Report on Operations.

### Notes to the postings

These Financial Statements, consisting of the Balance Sheet, Income Statement, Cash Flow Statement and Notes to the Financial Statements, represent truthfully and correctly the financial position of the Company, the result for the period ended as of December 31, 2016 and corresponding accounting records.

# RESOLUTION PROPOSAL

# 2.6

Dear Quotaholders,

We invite you to approve in full, and in each comprising document, the enclosed Financial Statements related to the year 2016.

The Financial Statements of Your Company as of 31 December 2016 report a net profit of 28,916,723.09 Euro (rounded to 28,916,723 Euro in the enclosed Financial Statements).

Should you agree with the criteria used in preparing the Financial Statements and the accounting standards and methods used therein, we propose to adopt the following resolutions:

- A. to allocate 28,916,723.09 Euro as dividend that can be distributed as of the day following the approval date and in line with the Financial Plan effective at the moment of distribution
- B. to adjust the Foreign Exchange Earnings Reserve to 982.49 Euro and to allocate as dividend 18,375.33 Euro of Foreign Exchange Earnings Reserve now available for distribution, as required by art. 2426 c.1 n. 8-bis of Italian Civil Code and by Italian Accounting Principles (OIC 1 and 26), that can be distributed as of the day following the approval date and in line with the Financial Plan effective at the moment of distribution

For the Board of Directors

**The Chairman**

Homoud Fahad Homoud Sultan Al-Qahtani



# REPORT BY THE STATUTORY AUDITORS

# 3





**STATUTORY AUDITORS' REPORT**  
**TO THE QUOTAHOLDERS**  
**OF TERMINALE GNL ADRIATICO S.R.L.**  
**RELATIVE TO FINANCIAL YEAR ENDED 31.12.2016**

Dear Quotaholders,

the Board of Directors called this meeting to resolve on the Financial Statements of the year ended as of 31.12.2016 and on the Board proposal concerning the allocation of the net income of the financial year.

As per previous years, in accordance with art. 2429 of the Civil Code, by this report the Board of Statutory auditors describes and summarizes the behavior line and activities implemented by the Statutory auditors of your Company for the financial year 2016 and the Financial Statements aforesaid.

The Board of Statutory auditors acknowledges that the Directors have reported the various aspects of the business for the financial year, informing in detail - as confirmed by the external auditors - on the results. During the year 2016, the business registered net revenues at 235,7 million Euro, EBITDA at 118,4 million Euro, EBIT at 42,2 million Euro and net income at 28,9 million Euro after accrued income taxes for a total of 13,2 million Euro. As of 31 December 2016, the total value of fixed assets, net of depreciation, is equal to 2.071 million Euro.

Regarding other operational aspects of the year ended as of 31.12.2016, to be noted:

- the gas quantities delivered by the Company into the national distribution grid which in 2016, as of 5.5 billion cubic meters, covered about 8.7% of gas imports to the Italian markets and 8.0% of total gas supply;
- the number of cargos (with 64 LNG ships), with a slight decrease as compared to year 2015 which has been largely motivated by the Board of Directors;
- the use of the Terminal, which dropped from 70% in 2015 to 69% in 2016, with a rate still much higher than the average utilization of LNG terminals in Europe.

As in previous years, the condition of the gas demand did not allow the Company to place on the market most of the quotas exceeding the regasification capacity contractually



agreed and the quotas of the quantities "released" by the operators with which long-term agreements are in place. As in the past years, these quantities were offered on the market according to the procedures authorized by the Authority (AEEGSI), as showed in the Regasification Code, duly published on Adriatic website. In this regard, the Board of Auditors may state to have monitored also in 2016 the correct performance of the formalities relating to the potential and actual access by any third parties, also in consideration of the Board of Auditors' role as Guarantor in respect of the AEEGSI and in the interest of third parties, in compliance with the specific regulatory provisions applicable to your Company.

Considering what this Board reported in the last year report, about the Test Certificate obtained under art. 48 of the Regulations for the implementation of the Navigation Code, we underline that in 2016 the Commission appointed by the Ministry of Economic Development completed his activities under art. 11 of Presidential Decree n. 420/94, so that the Decree issued on 28 July 2016 by the Ministry definitively authorized the Terminal to provide regasification services, the gas pipeline and the station measurement.

Despite the above mentioned slight decrease in production volumes and revenues, the Company continues to generate a positive cash-flow that also in 2016 allowed to continue partial refund to the Quotaholders, made under the supervision of the Board of Auditors, taking into account the Company financial situation and without any damage for creditors.

As far as other activities are concerned within the scope of the duties of the Board of Statutory auditors, it is pointed out that, while carrying out the same and during meetings and checks compliant with the obligations and duties as indicated by art. 2403 of the Civil Code and the rules of conduct defined by the Tax Consultants and Chartered Accountants Associations, the Board of Statutory auditors:

- attended all Quotaholders and Board meetings, obtaining regularly from the Directors information about the company's activities and the most important business transactions implemented by the Company;
- has overseen the procedures followed concerning the Board resolutions adopted by written consent pursuant to art. 24 of the By-Laws;

- has overseen that all Board resolutions taken in meetings and by written consent were compliant with the law and the By-Laws;

- has taken due note of the reasons and the considerations dealt with by the Directors when preparing the financial plan updates, with regard to current and planned business activities;

- evaluated the corporate organization as a whole and in terms of administration and accounting area, and can attest that it is consistent with the purposes and size of the Company and its effective business;

- evaluated the adequacy and efficiency of administration/accounting procedures and internal control system;

- verified the keeping and updating of the “Organization and Management Policy” (according to Legislative Decree no. 231/2001, as amended) through regular meetings with the competent Compliance Team and the review of the information available in its periodical reports;

- verified that, in the process of preparing the draft Financial Statements and Directors' report, the rules established by the law have been complied with and the disclosure provided exhaustive.

The adequacy of the organizational structure also resulted by the audits carried out in 2016 by a quota holder team and put in place as in the original quota holder agreement for the periodic execution of audits on the activities of the various company functions. This Board was kept updated on the outcomes of the audits, as well as on the development of an action plan determined with respect of certain improvement opportunities which were detected. No significant critical issues were brought to the attention of the Statutory Auditors.

Also in 2016 a special attention was paid to the management of the activities concerning health, safety and working environment by means of the management system named SHEMS (Safety, Security, Health and Environmental Management System), through which the Company monitors and manages individual and operating risks connected to safety, health and environment.

Among other matters of interest, we underline that The Report on Operations prepared by the Board of Directors and the information about the Financial Statements, in general providing full coverage of the various aspects of the business, includes details about the relations with Quotaholders or their affiliates in the company.

The Board of Statutory auditors acknowledges that it has asked for and regularly received all the information concerning legal disputes, their progress and the way the Company handles them. As known, the number of pending disputes in the last years has been considerably reducing, always with sentences favorable to the Company. In this regard, it can be pointed out that Directors in their report gave specific evidence of the pending litigations, highlighting those promoted by the Company and those in which it is defendant. For all the pending disputes, the Board of Statutory Auditors has taken extensive knowledge why Directors decided not to allocate any specific provision on potential liabilities.

Among the several disputes, very important was the one pending before the Court of Rovigo against two employees of the Company for a case of environmental crimes related to the generation of sea foam. The judge declared both defendants not guilty because “the fact is not a crime” under Article 530 of the Criminal Code.

Not only about the events which have generated the dispute mentioned above, but in a broader context, the Board also checked that the Company was paying a high and continuing attention to possible environmental impacts, both through specifically monitoring and sampling the water and adopting control mechanisms ensuring compliance with the limits established by the laws in force.

In 2016 there was a new dispute on fiscal matter, with potentially significant effects. In this regard, the Board of Directors gave detailed information in his report about the notification by the municipality of Porto Viro (Rovigo) of a tax assessment for 2010 ICI on the Terminal, for euro 3.6 million. The claim, which originates from three judgments of the Supreme Court which sanctioned the liability to ICI for oil platforms, may be extended for subsequent years. The Company performed many advocacy activities, supported by authoritative experts in this matter, which the Board has thoroughly examined. At present, the assessment of the Municipality of Porto Viro are judged totally unfounded and the Directors, as they exposed, on the basis of the

provisions contained in the OIC principle 31, decided not to allocate any specific provisions on potential liabilities.

The Board of Statutory auditors has regularly and appropriately exchanged information with the external auditor Deloitte & Touche s.p.a., in charge of the mandatory audit of your Company's accounts, has been informed that there were no events or transactions that required specific reporting and has verified the activities and methods implemented in the audit of the Financial Statements. In this regard, at completion of the activity concerning the mandatory audit of the Financial Statements, the external auditor Deloitte & Touche s.p.a. has today issued the final audit report with no remarks.

On this matter, we underline that the three-year period for the position of the external auditor Deloitte & Touche s.p.a. has ended and this Board, in fulfillment of the specific obligations imposed by law, following the process aimed to identify the new external auditor, adopted the separate proposal that is submitted to You to make Your decision.

The Board also notes that, as the period for which the Board of Statutory Auditors has been expired, thanking for the trust, the Quotaholders have to appoint the new Board of Statutory auditors for the next years 2017-2019.

At the end, the Board of Statutory auditors is favorable to the approval of the Financial Statements as of December 31<sup>st</sup> 2016 and of the Board of Directors proposal concerning the allocation of the net income of the financial year.

Milan – Rome 2017 April, 3<sup>rd</sup>

THE STATUTORY AUDITORS

*Signed by*

Mr. Maurizio de Magistris, Chairman

Mr. Lorenzo De Angelis, Acting auditor

Mr. Piero Gennari, Acting auditor

*This report has been translated into the English language solely for the convenience of international readers.*



# REPORT BY THE AUDITING COMPANY

# 4





## **INDEPENDENT AUDITORS' REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010**

**To the Quotaholders of  
TERMINALE GNL ADRIATICO S.r.l.**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Terminale GNL Adriatico S.r.l., which comprise the balance sheet as at December 31, 2016, the statement of income and statement of cash flows for the year then ended and the explanatory notes.

#### *Management's Responsibility for the Financial Statements*

The Company's Directors are responsible for the preparation of these financial statements that give a true and fair view in accordance with the Italian law governing financial statements.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Terminale GNL Adriatico S.r.l. as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with the Italian law governing financial statements.



## **Report on Other Legal and Regulatory Requirements**

### *Opinion on the consistency of the report on operations with the financial statements*

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations, which is the responsibility of the Directors of Terminale GNL Adriatico S.r.l., with the financial statements of Terminale GNL Adriatico S.r.l. as at December 31, 2016. In our opinion the report on operations is consistent with the financial statements of Terminale GNL Adriatico S.r.l. as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

*Signed by*  
Marco Pessina  
Partner

Milan, Italy  
April 3, 2017

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