Consolidated Interim Financial Report at 30 June 2017

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II. Corporate Boards

Board of Directors	Board of Statutory Auditors	Independent Auditors
Chairwoman Paola Muratorio	**Chairman** Marco Antonio Modesto Dell'Acqua	PricewaterhouseCoopers S.p.A.
Deputy Chairman Carlo Michelini	**Standing auditors** Gian Luigi Gola Marco Giuliani	
Chief Executive Officer Michele Enrico De Censi	**Alternate auditors** Andrea Cioccarelli Giuseppe Panagia	
Directors Matteo Ambroggio Matias Sebastian Burghardt Rita Ciccone Stefano Mion Luca Galli Giuseppe Picco Rogantini Stephan Fedrigo Rosaria Calabrese		

Directors' Report

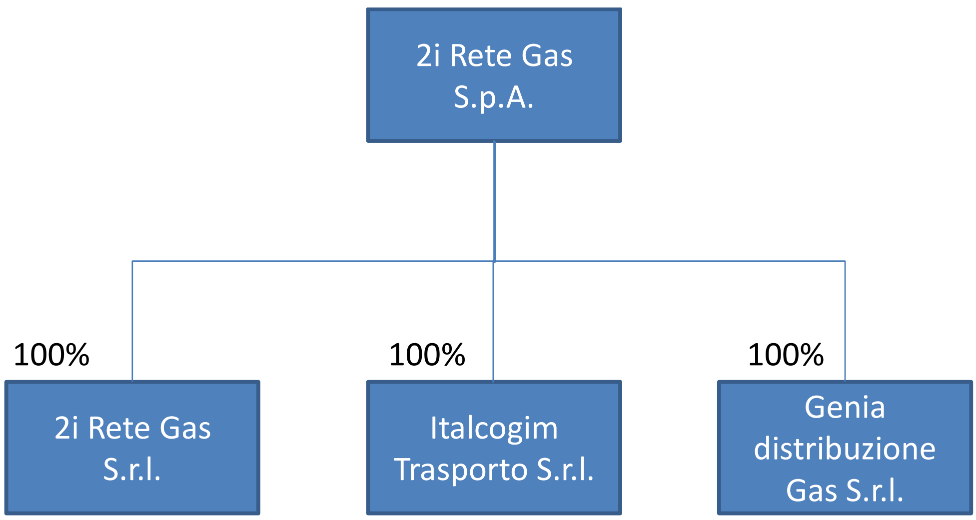
1. Macroeconomic scenario

According to the Bank of Italy's July 2017 Economic Bulletin for the second quarter of the year, after expanding in the first quarter, GDP continued growing by approximately 0.4% in the spring.
Services had a positive performance, in line with indications from companies, while manufacturing increased added value after slipping in early 2017. According to the projections in the Bulletin, Italy's GDP should grow by 1.4% this year, 1.3% in 2018, and 1.2% in 2019. Growth estimates have been raised significantly from January, reflecting the pick-up in economic activity in early 2017 as well as the improvement in foreign demand and energy commodity markets.
As for the indicators, more relevant to the company's operations, new installations/connection slowed down compared to the first half of the previous year.

In the first half of 2017, 2i Rete Gas S.r.l. participated in the tender for the concession of the distribution service for the Milan 1 area. Moreover, municipalities continue asking concession operators for the data required to issue tenders in the future.

2. Group structure and highlights

The following chart presents the situation of the Group at 30 June 2017:



Regarding the Group's operating and financial highlights, the following table shows the key operating, economic and financial indicators of the Group at 30 June 2017 compared to the previous year as well as the first half of 2016 alone:

	30.06.2017	31.12.2016	30.06.2016
Active concessions:	1,943	1,943	1,942
Active redelivery points:	3,904,154	3,900,186	3,869,356
Distributed Gas (Natural gas and LPG) in millions of cubic metres:	3,242	5,455	3,040
EBITDA in millions of euro:	195.5	399.6	192.8
Net profit in millions of euro:	48.0	129.5	60.8
Km of pipelines operated:	58,356	58,244	58,068

	30.06.2017	31.12.2016	30.06.2016
Net Financial Position in millions of euro:	2,045.3	1,984.0	1,929.1
Net Invested Capital in millions of euro:	2,736.1	2,704.4	2,566.9

3. Significant events during the reporting period

Early in the first half of the year, 2i Rete Gas S.p.A. undertook a complex liability management exercise that resulted in the redefinition of part of its funding sources, significantly extending its debt's average duration.
Thanks to the market's positive reception of the move, and the rating that the company has maintained since 2014 (BBB Outlook Stable and Baa2 Outlook Stable from Standard and Poor's and Moody's, respectively), the transaction allowed to secure financial terms and conditions suitable for supporting the Group's growth path in the coming years. In detail, after the last bond placement operation, duration of debt has significantly increased, and the maturity of single tranches has been optimized, with a distribution over 10 years. Moreover, thanks to the fixed rate structure of new issues, this operation reached the goal of protecting the Group from future increase of interest rates for a significant part of the existing debt and for a time span that is adequate for planned Group investments.

No acquisitions or disposals took place in the first half of the year.

4. Results of the 2i Rete Gas Group

When commenting on its income statement and statement of financial position data, the Group consistently uses over time certain popular non-IAS/IFRS measures. In particular, the income statement presents intermediate measures, such as EBITDA and EBIT, which are the algebraic sum of the items preceding them. As for statement of financial position data, similar considerations apply to net invested capital, net financial position, adjusted financial position, and accounting net financial debt, which are broken down in the following tables.
As the measures used by the Group are not defined in the reference accounting standards, their definitions may not be aligned with those adopted by other companies/groups, and therefore they may not be comparable.

The result from operations for the year is shown in the table below and has been obtained by reclassifying the income statement data in accordance with operational criteria compliant with international practice and keeping the accounting method in compliance with IFRIC 12.

Millions of euro	30.06.2017	30.06.2016	Change
Revenues	**494.4**	**430.4**	**64.0**
Transport and sale of methane gas and LPG	278.5	272.4	6.1
Connection and ancillary fees	8.3	10.3	(1.9)
Other sales and services	11.9	10.2	1.7
Revenues from intangible assets/assets under construction	98.0	95.2	2.8
Other revenues	97.7	42.3	55.3
Operating costs	**(298.9)**	**(237.7)**	**(61.2)**
Labour costs	(57.1)	(59.6)	2.5
Raw materials and inventories	(35.4)	(39.9)	4.5
Services	(102.7)	(93.3)	(9.4)
Other costs	(97.9)	(37.8)	(60.0)
Allocations to provisions for risks and charges	(6.3)	(7.1)	0.8
Increase in fixed assets not subject to IFRIC 12	0.5	-	0.5
EBITDA	**195.5**	**192.8**	**2.8**
Amortisation, depreciation and write-downs	**(76.5)**	**(77.9)**	**1.4**
Amortisation, depreciation and impairment losses	(76.5)	(77.9)	1.4
EBIT	**119.1**	**114.9**	**4.2**
Net financial income (expenses) and income (expenses) from equity investments	(49.1)	(22.2)	(26.9)
Pre-tax profit (loss)	**69.9**	**92.7**	**(22.8)**
Income tax expense for the year	(22.0)	(31.9)	9.9
Net profit (loss) from continuing operations	**48.0**	**60.8**	**(12.8)**
Net profit (loss) from discontinued operations	**-**	**-**	**-**
Net profit (loss) for the year	**48.0**	**60.8**	**(12.8)**

IFRIC 12, which represents the basis of presentation of the consolidated interim financial statements, does not affect profitability, and only requires recognising revenues and costs relating to the construction of distribution network infrastructure; for the sake of a better understanding of operating changes, here below is a summary table that shows consolidated revenues and costs excluding the impact of IFRIC 12.

Millions of euro	30.06.2017 without IFRIC 12	30.06.2016 without IFRIC 12	Change
Revenues	**396.4**	**335.2**	**61.2**
Transport and sale of methane gas and LPG	278.5	272.4	6.1
Connection and ancillary fees	8.3	10.3	(1.9)
Other sales and services	11.9	10.2	1.7
Revenues from intangible assets/assets under construction	-	-	-
Other revenues	97.7	42.3	55.3
Operating costs	**(200.9)**	**(142.5)**	**(58.4)**
Labour costs	(33.3)	(35.6)	2.3
Raw materials and inventories	(3.1)	(3.6)	0.5
Services	(61.3)	(58.7)	(2.6)
Other costs	(97.4)	(37.5)	(59.9)
Allocations to provisions for risks and charges	(6.3)	(7.1)	0.8
Increase in fixed assets not subject to IFRIC 12	0.5	-	0.5
EBITDA	**195.5**	**192.8**	**2.8**

Concerning the above tables, revenues, which amounted to 494.4 million euro including the impact of IFRIC 12, increased by 64.0 million euro: revenues from intangible assets contributed approximately 2.8 million euro.
Revenues from natural gas and LPG distribution totalled 278.5 million euro, up by 6.1 million euro.
The volumes for the first half of 2017 amounted to 3,242 million cubic metres of gas (natural plus LPG), up from 3,040 million cubic metres at 30 June 2016.

Connection and ancillary fees totalled 8.3 million euro, down by 1.9 million euro compared to the prior-year period (10.3 million euro): the decline was the result of the slowdown in requests for new connections.

Revenues from other sales and services, totalling 11.9 million euro, were slightly up compared to the previous year.
Revenues other than the above amounted to 97.7 million euro, rising 55.3 million euro compared to the previous year; this item was significantly affected by 57.5 million euro in revenues arising from the purchases of white certificates due to the greater value and number of certificates acquired during the period.
Technical quality incentive bonuses were up nearly 0.4 million euro from the first half of 2016. Meanwhile, gains on the sale of assets declined by approximately 4.3 million euro compared to the prior-year period, which benefited from the settlement of the dispute concerning the “Lariano Triangle” and the end of two concession arrangements (Caronno Varesino and Paderno Dugnano) for which the compensation to be paid to the outgoing operator was defined.

Lastly, with reference to the first table, increase in investments made during the first half of 2017, mainly in electronic meters, resulted in the recognition of 98 million euro in revenue (in accordance with IFRIC 12) under "Revenues from intangible assets / assets under construction", up by 2.8 million euro compared to the prior-year period.

Operating costs, totalling 298.9 million euro in the version with IFRIC 12, increased by 61.2 million euro, with an overall impact on the various costs from IFRIC 12 of 98 million euro for the current year (95.2 million in the previous year). Therefore, excluding this impact, operating costs rose 58.4 million euro, almost entirely because of the increased costs of Energy Efficiency Certificates (this line item must therefore be considered together with the corresponding revenue item).

More specifically, gross labour costs, totalling 57.1 million euro including the impact from IFRIC 12, declined 2.5 million euro compared to the prior-year period. As for labour costs excluding the impact from IFRIC 12, they were down 2.3 million euro at 30 June 2017.

The cost of raw materials declined by 4.5 million euro; excluding the impact of IFRIC 12, the change would be a negative 0.5 million euro, from 3.6 million euro in the first half of 2016 to 3.1 million euro in the same period of 2017 thanks to the improved procurement policy.

Consolidated costs for services increased by 9.4 million euro.
Excluding the impact from IFRIC 12, costs for services increased by 2.6 million euro, from 58.7 million euro in 2016 to 61.3 million euro in the first half of 2017. This change was largely attributable to the increased costs for the maintenance and repair of assets as well as the meter reading service: starting from this year, the latter is performed by the company and remunerated with a specific tariff.
Other Costs significantly rose as a result of the increase in the number and the market prices of Energy Efficiency Certificates purchased during the first half of 2017 compared to the prior-year period (up 58.3 million euro) as well as the increase in capital losses associated with the large-scale replacement of conventional meters and the renovation of the network (up 2.7 million euro from 2016).
After deducting 6.3 million euro in net provisions for risks concerning the review of the agreed concession fees proposed by a number of municipalities as well as ongoing legal disputes, EBITDA amounted to 195.5 million euro, up 2.8 million euro compared to the prior-year period (192.8 million euro) as a result of the increase in transport revenues, the decline in labour costs, and the net margin earned on Energy Efficiency Certificates during the first six months of 2017.

Amortisation, depreciation and impairment losses totalled 76.5 million euro, in line with the first half of 2016. They referred mainly to the amortisation of fixed assets.

Therefore, EBIT totalled 119.1 million euro, compared to 114.9 million euro in the first six months of 2016. The same considerations for EBITDA apply also to EBIT.

Financial Income and Expenses were negative to the tune of 49.1 million euro, improving by 26.9 million euro compared to the previous period as a result of the liability management exercise and the extension of maturities, which brought forward the economic impact of the partial settlement of some bonds.

The Group reported 69.9 million euro in profit before tax, down 22.8 million euro largely because of the trend in financial expenses registered during the period.

The negative impact from the income tax expense for the period on the Group's accounts totalled 22 million euro, significantly down compared to 2016. In the prior-year period, this line item was affected by a corporate income tax rate that was 3.5 percentage points higher than the current one.

Therefore, the Group reported 48 million euro in profit for the period, down 12.8 million euro from the first half of 2016 because of the impact of the liability management exercise—partially offset by the lower tax expense for the period.

The financial position for the year is shown in the table below. This was obtained by reclassifying the data from the statement of financial position in accordance with operational criteria.

Millions of euro	**30.06.2017**	**31.12.2016**	**Change**
	A	**A**	**A-B**
Net fixed assets	**2,693.1**	**2,663.2**	**29.9**
Property, plant and equipment	37.5	37.8	(0.3)
Intangible assets	2,882.0	2,862.7	19.3
Equity investments	3.4	3.4	0.1
Other non-current assets	48.2	45.1	3.1
Other non-current liabilities	(305.1)	(303.1)	(2.0)
Fair value of derivatives	27.1	17.4	9.7
Net working capital:	**110.0**	**106.0**	**4.1**
Inventories	24.9	20.3	4.6
Trade receivables due from third parties and the Group	113.9	234.1	(120.2)
Net income tax receivables/(payables)	10.3	(5.7)	16.0
Other current assets	308.7	181.1	127.7
Trade payables due to third parties	(178.1)	(166.7)	(11.4)
Other current liabilities	(169.6)	(157.0)	(12.6)
Gross invested capital	**2,803.2**	**2,769.2**	**34.0**
Other provisions	**67.1**	**64.7**	**2.3**
Post-employment and other employee benefits	47.4	48.1	(0.7)
Provisions for risks and charges	89.2	84.7	4.5
Net deferred taxes	(69.6)	(68.0)	(1.6)
Net invested capital	**2,736.1**	**2,704.4**	**31.7**
Assets held for sale	**-**	**-**	**-**
Liabilities held for sale	**-**	**-**	**-**
Equity	**690.8**	**720.4**	**(29.6)**
Net Financial Position	**2,045.3**	**1,984.0**	**61.3**

Net fixed assets, amounting to 2,693.1 million euro, largely consisted of intangible assets related to gas distribution concessions and were up a significant 29.9 million euro from 31 December 2016, including a 9.7 million euro increase in the Fair Value of outstanding derivatives.

The rise recorded in the item "Intangible assets" of 19.3 million euro was the net result of new investments of 104.9 million euro, in addition to decreases of 11 million euro and amortisation in the year of 74.6 million euro.

The decrease in the item "Property, plant and equipment" of 0.3 million euro was due to new investments (2.9 million euro), disposals (0.7 million euro) and depreciation (2.4 million euro).

Equity investments were unchanged at 3.4 million euro. The 3.1 million euro increase in "other non-current assets" was the result of the rise in medium- and long-term receivables due from the Fund for Energy and Environmental Services (CSEA), while "other non-current liabilities" were up 2.0 million euro due to the increase in medium/long-term deferred income for connection fees, property subdivision, plant transfer and network extension fees. Lastly, the value of derivatives was up 9.7 million euro, as interest rates rose further compared to the date they were entered into in the previous year.

Net working capital totalled 110.0 million euro, up nearly 4.1 million euro from 31 December 2016. The most significant changes concerned trade receivables, which are affected by seasonality, and other current assets, with receivables due from CSEA up sharply. Meanwhile, even though payables declined, they were affected only to a minimal extent by seasonal factors.

Therefore, due to the combined effect of the changes in the net long-term fixed assets and the net working capital, the gross invested capital increases by 34 million euro from 2,769.2 million euro in the previous year to 2,803.2 million euro as at 30 June 2017.

Sundry provisions, totalling a positive 67.1 million euro, were up 2.3 million euro overall, largely because of the change of 4.5 million euro in the provision for risks and charges—and specifically, the provision for disputes on concessions and other provisions for risks and charges—whereas the provision for post-employment and other employee benefits as well as the increase in net deferred taxes weighed on the result.

Therefore, net invested capital increased by 31.7 million euro, from 2,704.4 million euro in the previous year to 2,736.1 million euro.

Equity fell by 29.6 million euro, from 720.4 million euro in 2016 to 690.8 million euro at 30 June 2017, due to the net impact of the following changes:

- 85.0 million euro decrease following the ordinary dividend payout;
- 7.4 million euro increase in the reserves for the valuation of derivatives;
- 48 million euro increase following the recognition of the result at 30 June 2017.

The net financial position was up from 1,984.0 million euro in December 2016 to 2,045.3 million euro at 30 June 2017 because of, among other things, the payment of the dividend for 2016 in light of the positive performance in the first half of the year and in line with the seasonal trend.

The following table shows the reconciliation of the carrying amount of net financial debt and the net financial position, as well as the breakdown of the two:

Millions of euro		30.06.2017	31.12.2016	Change
Medium/long-term bank loans	25	(425.0)	(270.0)	(155.0)
Medium/long-term bonds	25	(1,664.9)	(1,890.0)	225.1
Cash and cash equivalents with third parties	21	51.7	183.2	(131.5)
Short-term financial receivables	19	6.3	0.9	5.3
Other current financial assets	20	0.0	0.0	0.0
Non-current financial assets	15	0.7	0.8	(0.0)
Current financial liabilities	35	(28.1)	(21.1)	(7.0)
Adjusted Net Financial Position		**(2,059.2)**	**(1,996.2)**	**(63.0)**
Non-current financial assets - loan costs	15	0.5	0.6	(0.1)
Adjustment of payables due to loan costs (IAS 39)	25	13.4	11.6	1.8
Net Financial Position		**(2,045.3)**	**(1,984.0)**	**(61.3)**
Positive fair value of derivatives	20	27.1	17.4	9.7
Accounting net financial debt		**(2,018.3)**	**(1,966.6)**	**(51.6)**

5. Regulatory and tariff framework

5.1 Regulation

As concerns 2i Rete Gas's business, the interventions of the Autorità per l'energia elettrica, il gas e il sistema idrico (AEEGSI — Regulatory Authority for Electricity, Gas and Water) during the first half of 2017 were largely along the lines of the 2015-2018 Strategic Framework.
During the period, the Authority issued provisions that affected the company and its subsidiaries concerning the gas and water services sectors; specifically, in the case of gas distribution, there were some provisions on tariffs, the fee for meeting the 2016 and 2017 energy efficiency targets, the network code for gas distribution, and metering.

As for Energy Efficiency Certificates (EEC), in April, with Resolution 6/2017 DMRT, the data on the primary energy saving targets for 2017 were submitted to Italy's Ministry of Economic Development as well as Gestore dei Servizi Energetici (a publicly-owned company promoting and supporting renewable energy sources in Italy). In addition, following the audit completed in April with Resolution 292/2017/E/efr, and with reference to the process for reviewing the calculation of the tariff fee for the EEC mechanism, after holding a consultation on the matter in May, in June the Authority amended (Resolution 435/2017/R/efr) the rules for the definition of the fee payable to obliged entities for meeting their energy efficiency targets. With Resolution 10/2017 DMRT, based on the previous calculation method, the Authority set the final tariff fee for 2016 (€ 191.40/EEC) and, based on the new method, the estimated tariff fee (now known as the “reference” tariff fee) for 2017 (€ 170.29/EEC).

Concerning the relationships between distribution companies and network users (sales companies), with Resolution 465/2017/R/gas of 22.06.2017, the Authority launched a process to review the gas distribution network code. Among other things, this aims to update aspects concerning invoicing, the rules governing guarantees, and the handling of non-compliance.

Concerning metering, with Resolution 434/2017/R/gas of 15.06.2017 the Authority decided to start a trial in October 2017 to allow distribution companies to make gas meter readings available to the Integrated IT System (SII) as well as sales companies.

In the first half of the year, with Resolution 704/2016/R/gas, the Authority set up a technical work group including representatives from the trade associations of distribution companies and the Authority's Offices to adopt new standard cost valuation methods for new investments in gas distribution networks. The Authority is expected to hold a public consultation on the conclusions of the technical work group and subsequently issue the relevant provision. The new method would become effective starting with the tariffs for the year 2019.

As for Atem (minimum territorial area) tenders, during the period AEEGSI approved the comments on the compensation for Massa Carrara's Atem (Resolution 142/2017/R/gas) and introduced a number of provisions to streamline the analysis of the differences between the residual industrial value and the RAB (Resolution 344/2017/R/gas).

Provisions and/or other events subsequent to 30 June 2017

After holding a consultation in 2016, the Authority defined (Resolution 513/2017/R/gas of 06.07.2017) detailed rules for the evaluation of requests to pay part or none of the penalties assessed on distribution companies for the failure to discontinue the service to redelivery points under the default distribution service.

The Authority introduced (Resolution 522/2017/R/gas of 13.07.2017) amendments to the 2014-2019 RQDG (Regulations on the quality of gas distribution and metering services) as per Resolution 574/2013/R/gas, updating the regulations on the performance of the metering service for the redelivery points connected to natural gas distribution networks in order to improve the relevant service standards. This also had implications for the plan relating to the installation of smart gas meters.

Lastly, with Document 544/2017/R/gas of 20.07.2017 (DCO), the Authority launched a consultation on its approach to the reform of the switching process in the retail market for natural gas aiming to centralise said process within the SII, as it already did in the electricity sector.

There were no further significant events.

5.2 Tariffs

In the first half of 2017, the distribution and metering tariffs continued to apply in accordance with the principles established in Resolution No. 367/2014/R/gas for the fourth regulatory period (2014-2019). These were partially amended by Resolution No. 583/2015/R/com, which introduced a revised method for calculating the weighted average cost of capital (WACC) for all regulated infrastructure services in the electricity and gas sectors. As a result, the WACC for natural gas distribution and metering for the 2016-2018 three-year period was set to 6.1% and 6.6%, respectively.
In addition, the option for the accounting of contributions exercised with Resolution No. 455/2014/R/gas continued applying based on the area, therefore there are currently two methods to amortise the “stock” of contributions received up to December 2011. The contributions received after said date can be deducted from net fixed assets for the purposes of calculating both the RAB and the annual amortisation. The operating costs recognised based on the initial operating costs established in the Resolution, which are measured according to the company's size and the density of the service provided, were adjusted for inflation and subject to an x-factor of 1.7% for the distribution service and 0% for the metering and marketing service.

In November, the Group will prepare the “final” annual report of its investments in order to determine the net capital invested in distribution and metering operations for 2017 by calculating the changes from the previous year (“t-1”). This will allow to update the RAB based on the actual or budgeted costs for distribution operations, the standard costs for metering operations, and the parametric costs for centralised assets.
As for regulatory decisions, in the first half of 2017, the Authority set the “final” reference tariffs for gas distribution and metering services for 2016 with Resolution 145/2017/R/gas as supplemented by Resolution 288/2017/R/gas. During the same period, with Resolution 146/2017/R/gas, the Authority recalculated the tariffs of a number of players for the years 2009-2015 and, with Resolution 220/2017/R/gas, set the “provisional” reference tariffs for natural gas distribution and metering services for 2017. With Resolution 389/2017/R/gas, the Authority recognised the operating costs related to remote reading and management systems as well as concentrators that the distribution companies which adopted buy solutions incurred between 2011 and 2013. On 28 June 2017, AEEGSI issued Resolution no. 480/2017/R/COM, updating the tariffs that cover overheads in the gas sector (RE, RS, UG1, GS) effective 1 July 2017. In addition, to address the costs related to EECs for the years 2015, 2016 and 2017, the Authority is raising RE and RET tariffs effective 1 October 2017.
Lastly, based on the findings of the audit carried out in June 2011, with Resolution 541/2017/R/gas, the Authority recalculated the reference tariffs for the company's gas distribution and metering services for over a hundred distribution networks owned by Local

Authorities. By 30 September 2017, 2i Rete Gas must submit a five-year plan to pay the revised amounts, without any interest, starting from 2018. The company had already filed an appeal in this regard with Lombardy's Regional Administrative Court and believes it can prove in court that the adjustment is unwarranted—also because the financial data reported by Local Authorities is substantially confirmed by the mandatory accounting information submitted to the Authority.

6. Concession development and operation

Over the last few years, the natural gas distribution sector has undergone significant regulatory changes. This ever-changing framework has considerably slowed down tenders: only 2 ATEM tenders (Milan 1 – City and plant of Milan, for which also 2i Rete Gas S.r.l. has submitted a bid, and Turin 2 – Turin Plant) out of the 19 issued between 2015 and 2016 have gone ahead.
Specifically, in the first half of 2017:

- Concerning ATEM tenders: an additional ATEM tender (Verona 2 – Verona Plains) has been called on top of the 18 already issued in previous years. With ruling No. 00655/2017, Veneto's Regional Administrative Court cancelled the tender for Venice 1 - Venetian Lagoon, and the terms for the following tenders are currently suspended: Alessandria 2 – Centre, Cremona 2 – Centre and Cremona 3 – South, Massa and Carrara, Biella, Turin 3 – South West. Lastly, the Contracting Authority (Municipality of Lissone) has called off the tender for Monza and Brianza 2 – West.

- As for individual concessions: the Municipality of Bonea (province of Benevento) has launched a project financing (Official Journal of the Italian Republic 17.05.2017) approved by Italy's Ministry of Economic Development in derogation of Italian Legislative Decree no. 93 of 01.06.2011 (known as the "Third Energy Package"), and the Municipality of Pozzilli (province of Isernia) has called a tender for the sale of gas and the operation of the network of the Industrial Consortium (Official Journal of the Italian Republic 15.05.2017).

6.1 Participation in non-ATEM tenders

The parent company previously submitted a bid for the tender issued by the Municipality of Poggiomarino (province of Naples) in 2016, and was temporarily ranked in second place. The tender is yet to be awarded.
Concerning the two tenders for individual concessions issued in 2017, the Group has not submitted any bids as it is not interested in them.

6.2 Activities on ATEM tenders

As mentioned, on 16.01.2017 2i Rete Gas S.r.l. made a bid in the ATEM tender Milan 1 – City and Plant of Milan (nearly 839,000 end users, approximately 1.3 billion euro contract value for the operation of the Metropolitan City of Milan and other 6 neighbouring Municipalities). The Contracting Authority is currently evaluating the industrial plans submitted by 2i Rete Gas S.r.l. and Unareti S.p.A. (an A2A group company), which were both accepted following the examination of administrative documents. With Ruling no. 1186 of 26.05.2017, Lombardy's Regional Administrative Court rejected the appeal filed by 2i Rete Gas S.r.l. and 2i Rete Gas S.p.A. concerning the ATEM Milan 1 tender after the appellants retired their bid citing a lack of interest in light of the amendments the Contracting Authority made to the tender specifications. The municipal attorney's office, which represents the Contracting Authority, and the Italian Attorney General's Office, which represents AEEGSI, have both joined the proceedings. Also during the first half of 2017, the Group has been preparing and transmitting all the necessary documentation to the Municipal Administrations and/or the Contracting Authorities that requested it in order to draft and subsequently issue the call for tenders. This information will have to be updated if necessary when the actual tender takes place, and is required by article 4 (Disclosure obligations for operators) and article 5 (Compensation to the outgoing operator) of Italian Ministerial Decree 226/2011.

6.3 Concessions awarded

As for the concession of the Municipality of Castronno (approximately 2,200 end users), which had already been awarded through a tender in 2011, 2i Rete Gas signed the new service agreement on 27 February 2017 and started operating the concession on 1 March 2017.

6.4 Concessions lost

Concerning the tender for the concession of the natural gas distribution service issued by the municipality of Manfredonia (province of Foggia) (approximately 16,000 end users), Apulia's Regional Administrative Court, in its ruling No. 1150 of 29 July 2015, upheld the appeal filed by 2i Rete Gas S.p.A. reinstating it in the tender process and stripping Gasman S.r.l. of the concession. Said company filed an appeal with the Italian Council of State, which, with court order No. 1826 of 5 May 2016, appointed an expert witness to answer additional technical questions besides the ones already asked of the Auditor (AEEGSI) at the first instance hearing, which ended in favour of 2i Rete gas S.p.A.
With ruling No. 258 of 23 January 2017, the Italian Council of State upheld Gasman's appeal and reversed the decision of Apulia's Regional Administrative Court, which raised no objections to 2i Rete Gas S.p.A.'s bid and therefore allowed 2i Rete Gas S.p.A. to participate in the call for tenders.

6.5 Participation in tenders for the acquisition of companies

On 23.06.2017, as part of a negotiation procedure set up by the parent company Gas Natural Fenosa S.A., 2i Rete Gas S.p.A. submitted a non-binding offer to acquire 100% of Nedgia S.p.A., Italy's 7th-largest gas distributor (approximately 460,000 end users in 226 Municipalities, with a network of slightly more than 7,100 km), and Gas Natural Italia S.p.A., the group's service company.

7. Support for gas transport activities

7.1 Main Regulatory Changes

In the first half of 2017, the Regulatory Authority for Electricity, Gas and Water (AEEGSI) issued several provisions.
We note the following due to their significance to the activities carried out by the "Commercial Network Services”:

- Resolution 252/2017/R/com of 18/04/2017, governing tariff relief and instalment payment plans for the communities struck by the seismic events occurred on 24 August 2016 and thereafter;
- Resolution 434/2017/R/gas of 15/06/2017, governing the management of readings as part of the Integrated IT System with reference to the gas sector.

The regulatory changes introduced with Resolution 413/2016/R/com of 21/07/2016 as amended and supplemented are currently being implemented. Said provision approved the new consolidated act of the regulations on the commercial quality of sales services and amended aspects of the regulations on the quality of electricity and gas distribution services; the changes will become effective starting from 01/07/2017.
In addition, on 27 June 2017, the Italian Minister for the Economy and Finance issued the decree governing the implementation of art. 1 of Italian Legislative Decree no. 50 of 24 April 2017 concerning the VAT split payment mechanism.
The decree contained the list of public administration bodies included in the consolidated income statement, the subsidiaries of central and local public administration bodies, and the listed companies included in the FTSE MIB index that are subject to the new provisions.
The regulatory changes required to update invoicing systems in accordance with the bills for July 2017, the first month in which the decree becomes effective, have been implemented.

7.2 Relations with Traders and Customer Care

Major customers

In the first half of 2017, the Group continued in the management of the gas distribution business in undertaking normal commercial relations with its customers (gas sale companies or traders).
The Group's main customers are Italian companies which are leaders on the gas market. In particular, customers whose contribution to turnover was over 5% of the total during the year were:

- ENEL ENERGIA S.p.A. with 41.9%
- Engie Italia S.p.A. with 12.0%
- E.ON Energia S.p.A. with 8.2%

Commercial quality

The level of commercial quality is measured by means of a general company index showing the percentage of services not carried out within the standard time frames set by AEEGSI with reference to connections, reconnections, disconnections, quotations, and the execution of both simple and complex work.
The general company index of "non-standard" services of a specific level, for the purposes of calculating service quality indicators, for the first half of 2017 was 0.11%.

The general quality index, pursuant to the provisions of Resolution No. 574/2013/R/gas, was 0.11% for the specific levels (0.10% at the end of the previous year) and 0.69% for the general levels (0.72% at the end of the previous year).

Complaints Management

Requests for information and/or complaints from End Customers concerned mainly the verification of readings and the provision of consumption details, specifically with reference to the replacement of conventional meters with new smart ones pursuant to Resolution No. 631/2013/R/gas of 27 December 2013.
In the first half of 2017, the 2i Rete Gas group managed 1,959 written complaints and requests for information.
The Group replied to 25 requests from "AEEGSI – Consumer Point of Contact" for complaints it received directly. This service was created in 2009 to handle requests and reports by end customers.
The number of cases involving End Customers that use the online settlement tool for disputes with regulated sector operators, the "second decision-making level" established by AEEGSI, continued making an impact; since 01/01/2017, the online settlement session has all but

replaced written complaints with the Consumer Point of Contact, which to date is used exclusively for cases concerning the gas bonus.
Lastly, the Group handled 997 requests for technical data that could be obtained by reading smart meters (M01) and 2,272 requests for other technical data (M02).

7.3 Front Office

In the first half of 2017, as in 2016, the Group managed the commercial services requested by the sales companies almost exclusively through the Four portal; most sales companies have now adopted this tool—both the "web" and the "application to application" solutions.

The processes for the connection of last resort services, supply of last resort (Fui) and default service (Default), remained high also compared to the previous year, mainly because end customers delayed payments to the respective sales companies.
Indeed, sales companies can terminate the supply contract with the end customer, even without the cessation or interruption of service due to technical and/or economic reasons, by exercising their right to terminate their ownership and transfer it to the competent last resort service provider – in this specific case, the default service provider.
At 30 June 2017, the number of connections of last resort services activated in the first half was 6,011, including 2,628 Fui and 3,383 Default connections.
As in previous years, the Group kept on discontinuing the service to the Redelivery Points under the Default Service in accordance with applicable laws.
The Group is increasingly automating the default service by integrating new IT tools in the application map to manage the process end-to-end.

In the first half of 2017, requests to switch providers amounted approximately to 175,481, of which 153,545 were accepted (around 29,600 per month on average).

In May, the Group made available an Internet Portal to end customers and the installers working on their behalf: these can access a reserved area to submit activation documents pursuant to Resolution 40/2014 as well as check the progress on their case. The main goal is dematerialising paper documents, thus reducing the time it takes for the end customer to submit/receive documentation and the supply to be activated.

7.4 Gas Invoicing and Balancing

Invoicing of Transport and Services

Following the earthquakes occurred on 24 August 2016 and thereafter, last year the company had suspended transport invoicing for nearly 12,500 redelivery points. The suspension concerned only the municipalities included in the area affected by the earthquake (Cratere Sismico), as defined by Italian legislative decree No. 189 of 17 October 2016 [Annex 1.]

Resolution AEEGSI 252/2017 of 18 April 2017 defined, among other things, the timeframe of the suspension of invoice payment terms and the tariff relief for the communities struck by the seismic events.
Concerning transport invoicing, the amounts to be invoiced to the companies that sell service to end customers and were the holders of service agreements as at the dates of the 3 seismic events (24 August and 26 October 2016, and 18 January 2017) were reduced to zero.
As for service invoicing, the fees for the connection and activation of emergency accommodations as well as for the deactivation of the redelivery points included in the areas affected by earthquakes and their subsequent reactivation were reduced to zero (automatic relief). The resolution also established how to invoice the so-called relief measures at the request of the end customer, as well as how and when the outstanding balance with the sales companies, that are the holders of the service agreements eligible for relief, will be settled.
The Group is currently laying the groundwork to comply with these requirements: this process is to be completed by 30 September 2017.
The second part of the "Zero Print" project for the Service Invoicing Area is now complete. This has allowed to change the delivery method for invoices and the relevant attachments concerning the services provided to sales companies, ensuring and speeding up their delivery as well as curbing mailing costs.
In addition, as part of the judicial actions undertaken pursuant to applicable laws concerning the discontinuation of the service to the Redelivery Points under default, the Group has started charging back the legal costs it incurred.
Transport and commercial services were invoiced on a monthly and regular basis and during the first six months of the year.

Gas Balances

In the first half of 2017, pursuant to Resolution 229/2012/R/gas – TISG (Testo Integrato Settlement Gas, Consolidated Gas Settlement Act), the Group finished handing over the data relating to the adjustment session spanning the calendar years 2013, 2014 and 2015 to National/Regional Transporters, for which the deadline was February 2017.
The Group carried out the monthly activities associated with calculating the balance within the deadlines envisaged by applicable laws.

7.5 Metering

The Group successfully completed and has now put in place the measures and internal actions to implement the processes required by the regulatory changes in AEEGSI Resolution 463/2016/R/com, which became effective on 01.01.2017. Specifically, this provision requires the distribution company to compensate sellers in the event of failure to make the cycle readings available in the agreed time frame.
In addition, the Group has started examining the requirements in Resolution 434/2017/R/gas of 15.06.2017, which governs the management of readings as part of the Integrated IT System with reference to the gas sector.

Pursuant to said resolution, in October 2017 the Authority will start a trial of a streamlined procedure to make readings available to the SII and sales companies as well as make the relevant adjustments. This will be similar to the current procedure for the submission of readings to sales companies.
The Single Buyer will be responsible for monitoring compliance during the trial and, in the event of non-compliance, notifying the distribution companies concerned as well as AEEGSI.

8. Plant construction, environment and safety

8.1 Gas distribution plants

During the year, a total of around 56 km of piping was laid, of which around 33% was high to medium pressure and 67% low pressure.
In line with the company's technical guidelines, the piping laid in the year was around 98% done in HDPE (high-density polyethylene) which is a technologically advanced material widely used by the main international gas operators and has lower operating costs compared to traditional coated steel.
This work arises from the improvement needed to maintain levels of service and acquisition of new customers as well as to meet the concession obligations deriving from the agreements with the relevant Entities.
The total length of piping managed by the 2i Rete Gas Group at 30 June 2017 was, therefore, around 58,360 km, servicing over 1,900 municipalities.
In addition, 1,140 primary substations are active which, upstream of the distribution networks which the Group manages, reduce, measure and odorise the gas from the national transport networks. On the network, there are also over 14,000 secondary reduction groups with a capacity of at least 120 sm3/h to reduce pressure between the medium and low-pressure networks, direct supply to large customers and intermediate pressure reductions between medium pressure networks.

8.2 Service continuity and safety

By March 2017, the Group published the data on the 2016 technical standards. To this end, it retrieved the data the local units entered directly into the IT systems during the year, verifying whether they are correct and consistent as needed.
As in previous years, the Group's performance has exceeded the minimum requirements.
In terms of constant attention to the safety of plants and end customers, campaigns were undertaken regarding the preventative search for leaks: relating to the planned inspection on the distribution network, equal to over 70% of the high and medium pressure piping and over 60% of the low-pressure piping.
As regards checks on the level of odorisation of the gas distributed, which were carried out in the field in order to provide a complete check on the real level of odorisation of such gas, data was recorded (around 17,000 chromatographic gas tests) well above the minimum value

required by the AEEGSI (around 3,300 tests), a sign of the particular attention paid to service safety.

In the first six months of the year, consistently with applicable laws and corporate procedural guidelines, the Group started checking the data concerning service Continuity and Safety processes pursuant to Resolution 574/2013/R/gas for the year 2017.
The main parameters concerning these activities relate to services showing the distributor's ability to promptly intervene in potentially dangerous situations (emergency interventions, intervention time), or to organise and carry out preventative checks to ensure correct monitoring of safety conditions (percentage of network subject to inspection, level of gas odorisation, percentage of network with cathodic protection).

8.3 Resolution 155/08 – (Smart meters)

In the first half of 2017, according to the budget's guidelines, the Group continued the large-scale roll-out and gradual commissioning of electronic meters, replacing conventional ones.
The Group decided to defer the remote management of the switch-off of the electrovalve on the G4 and G6 smart meters until 1 January 2018 in accordance with Resolution 821/2016/R/gas, notifying the Authority via a specific letter.

8.4 Planning activities

In the first half of 2017, preliminary design work focused mainly on territorial tenders (ATEM). The Group continued examining the technical details for the preparation of the technical proposals to submit during the tender along with the relevant design work.
Flagship projects, if any, were also analysed, which, besides being a mandatory document for the Contracting Authorities in which the main local needs and/or expectations or technical failings are indicated by the Contracting Authority, are an essential element to better direct design choices and are initial technical and economic means of identifying the main work needed.
In January, the Group finalised the technical design proposal for the ATEM Milan 1 "City and Plant of Milan" tender. This process, which turned out to be particularly complex because of the plant's technical characteristics as well as the multiple amendments and supplements the Contracting Authority made to the tender specifications, was completed before the deadline for 2i Rete Gas S.r.l. to participate in the tender.

9. Water Sector

The management of the potable water in 5 municipalities in which the company is currently present continued. On 02.05.2017, 2i Rete Gas entered into an agreement with PAVIA ACQUE S.c.a.r.l., the single operator of Pavia ATO (Optimal Territorial Area), for the sale of the water purification plants in the Municipalities of Robbio, Castelnovetto, Confienza, Palestro, and

Sant'Angelo Lomellina, as well as drinking water distribution and sewage plants in the Municipalities of Confienza, Palestro, Robbio, and Castelnovetto. 2i Rete Gas took over their operation effective 03.05.2017.

10. Quality, Safety and Environment

Maintenance of 2i Rete Gas S.p.A. Integrated QSE System

In the first six months of 2017, the Group's internal auditors carried out 35 audits of compliance with the Integrated Management System, so as to monitor the alignment with the relevant requirements. 6 of the audits carried out concerned Office facilities, and 29 concerned Departments as well as the underlying Territorial Areas.
In May, the Certification Body performed the audit required to renew the certification of the Integrated Management System's compliance with the requirements in UNI EN ISO 9001:2008, UNI EN ISO 14001:2004, and BS-OHSAS 18001:2007.
The audit concerned the following departments: Centre, South East—as well as the following Office Organisational Structures: Procurement and Services, Operation, Engineering, Human Resources, Network Commercial Services, IT Systems, and the Quality, Safety and Environment structure, including also the Prevention and Protection Service.
The conclusion confirmed the System is compliant, renewing the Quality and Environment certifications through 14 September 2018 and the Health and Safety certifications through 24 May 2020.
The Quality and Environment certifications will expire earlier because of the updates to the reference standards UNI EN ISO 9001 and 14001: this requires aligning the management systems, which are based on the previous versions of the standards. The transition process is the subject of a specific project intended to ensure the transition of the certificates in the first half of 2018, i.e. before the current certificates expire.
Based on the most recent report of the Certification Body, the management system is compliant with the reference standards; the targets for improvement have been duly set in line with the corporate policy's principles regarding quality, the environment, and safety. Employees are adequately aware of, and involved in, the company's operations.
The Certification Body reported that the System's performance shows several strengths, such as Management's commitment, the expertise and awareness of the personnel surveyed, the level of detail of the documentation provided, the Procurement Portal, the effectiveness of internal auditing, and the monitoring of outsourcers.
No cases of "Major Non-Compliance" were found.
As usual, the report included also some recommendations/opportunities for improvement (totalling 15) that require planning targeted actions. Before the audit scheduled for next year, the Group will have to provide evidence that these actions have been implemented and are effective.

Certification of 2i Rete Gas S.r.l.'s Quality System

The subsidiary 2i Rete Gas S.r.l. has a Quality Management System compliant with the requirements in UNI EN ISO 9001:2008.
The Certification was issued on 10 March 2016 and, as in the case of 2i Rete Gas S.p.A., is valid through 14 September 2018. The project for the transition to the new 9001:2015 scheme will occur at the same time as the routine check planned for 2018.
In March 2017, the Certification Body performed the first regular routine check, which confirmed the validity of the system without finding any problems.

10.1 Prevention and Protection Service

In January, all Business Units held the annual meetings required by art. 35 of Italian Legislative Decree 81/08, discussing safety-related issues based on the events of 2016. At these meetings, the new noise exposure risk assessment was presented to all Workers' Safety Representatives.
In February, the Company updated the Risk Assessment Documents for all 7 business units.

Workplace injuries:

In the first half of 2017, workplace injuries were down compared with the previous year.

While in the first half of 2016 there had been 11 “non-serious” injuries (i.e. with an initial recovery time of less than 30 days) among operational staff and 1 injury among clerks, in the first six months of 2017 there were 8 “non-serious” injuries among operational staff and none among clerks.
Besides the above injuries, in the first half of 2017 there were also 1 and 3 commuting accidents involving operational and clerical staff, respectively (the same number as in the prior-year period). Therefore, the total number of injuries was 12, compared to 16 in the first six months of 2016.
In order to achieve “zero injuries”, the QSA structure, in collaboration with the Head of the Prevention and Protection Service, continues auditing workplace safety at the territorial facilities as well as the work sites run by contractors.

During the first half of 2017, workplace health monitoring continued, ensuring the implementation of the relevant programme according to the findings of the risk assessment and based on the relevant health protocol. During the period, 338 Middle Managers and Clerks as well as 531 Manual Workers were placed under workplace health monitoring.

10.2 Environmental issues

The QSA structure guarantees constant monitoring of the significant environmental aspects and ensures that the company is in line with the changes in the major regulations in the environmental area.
The Company has updated its Environmental Analysis—the key document for assessing its environmental impacts.
The QSA structure regularly monitors the programme for the removal of asbestos from buildings. Particular attention is focused on managing the acoustic impact of pressure regulating and metering (REMI) stations and pressure-reduction units (GRF), in terms of prevention as well as insofar as the immediate implementation of actions in the field to mitigate those sporadic cases in which acoustic zoning limits were exceeded.
Concerning REMI stations, the Group continues monitoring updates on the presence of MMVFs (man-made vitreous fibres). All said fibres are quarantined, therefore there is no risk of airborne fibres at the company's facilities (i.e. the REMI stations).
Regarding emissions into the atmosphere, the Group submitted the F-Gas certification pursuant to Italian Presidential Decree No. 43/12 concerning the emissions of fluorinated greenhouse gases for the A/C systems of the buildings that fall under said regulation. Concerning the pre-heating sections of the REMI stations, performance audits continue to be conducted on a voluntary basis. 100% of the boilers will be audited by the end of the year.
The Company is registered in the SISTRI System for the purposes of managing its own hazardous special waste. The Company handles the non-hazardous and hazardous special waste it generates using state-of-the-art processes, tracking it by keeping waste acceptance and deposit records as well as digitally using the “Atlantide” application.

10.3 Annual report on the Quality of the Distribution Service

In accordance with the rules and deadlines established by AEEGSI with the Resolution 574/13, which defines the general requirements and standards for the commercial quality of gas distribution services, in March 2016, the Company submitted the data on the services rendered in 2015 by 2iReteGas S.p.A., GP Gas, and Genia Distribuzione.

The information submitted to AEEGSI is aggregated on a regional basis and concerns:

- the number of end customers served at 31 December 2015;
- the number of services required to comply with specific levels of quality. The Company distinguishes between the services that were performed within standard time frames and those that were not, with or without compensating customers for delays caused by the Company:
- the number of services required to comply with general levels of quality.

Overall, as in previous years, the report showed that the quality of the services is aligned with the minimum requirements established in said resolution.

11. Human resources

In the first half of 2017, the Group made efforts to improve industrial relations as well as implement innovative projects to develop human resources, enhance internal communication, and review and streamline the organisation of certain structures, reducing the number of operational areas from 26 to 22.

Specifically, as for industrial relations, the first half of 2017 saw the renewal of the Italian national collective bargaining agreement for the Gas and Water sector, which had expired in January 2016. 2i Rete Gas participated in the negotiations on the new agreement. which brings wage increases in line with estimated inflation for the relevant three-year period: the overall contractual amount for the term of the agreement is 1,616 Euro for grade 5 employees.
In addition, the Group also signed the company-level agreements concerning the 2016/2017/2018 performance bonuses, which are contingent on meeting specific technical indicators.

Since January 2017, the SAP HR portal has been available on the corporate intranet. This allows to interactively manage attendance/ absences, business travel, travel bookings and tickets, expense reports, expense reimbursements and their approval by the direct supervisor for all employees excluding operational staff. In April, the Group launched a project complementing SAP HR to interactively manage manual workers by setting up data interfaces between the "Geocall Workflow Management" portal and SAP HR Time. Besides the data exchange interfaces, the Group is to implement a portal for manual workers on the company tablets assigned to them.

The launch of SAP HR—and the improvements made to the system during the first half of the year—has led to an overhaul of data extraction processes: by matching data on employee compensation and attendance, this will allow to improve human resources reporting starting from the second half of 2017.

As for internal communication, an increasingly strategic asset for the purposes of promoting and disseminating company culture within the organisation, a highlight was the publication of 2i Rete Gas's Charter of Values—the result of several meetings in and out of the office with employees, who provided ideas, insights and suggestions to define the Charter—as well as the launch of the "Noi2i facciamo rete" brand, to be used for all relevant initiatives aimed at strengthening the company's identity and teamwork.

Several improvements were made to the intranet to make the portal easier to use: this represents the main internal communication channel as well as the interface to access a set of instruments and systems for day-to-day operations. In this regard, the Group also implemented functionalities intended to get employees to know each other better as well as

inform them about its activities and processes ("Naviga in 2iRG" project, "un Nome, una Persona, un Viso" project).
Always concerning the Intranet portal, the Group laid the groundwork for the implementation of new functionalities related to the performance appraisal project: in the second half of the year, this will allow to perform the whole appraisal process online.

The Group also launched the Job Posting project, making all jobs offers across business units visible to all employees. This new search channel is intended to promote internal resources, consolidating their expertise and developing their potential while improving the contribution they can make to the Company.

Concerning the recruitment and selection process, the Group hired 11 new employees. Specifically, the focus was on Network Commercial Services, Regulatory Affairs, Tariffs, Electronic Metering, ICT, Engineering, Human Resources, and Procurement and Services.

As for training, the Group completed the process launched in 2015 by providing in-depth courses on several topics: relational teamworking, result orientation, self-empowerment, and leadership styles. All courses were funded through Fondimpresa.
The Group also offered a course on the Management of Cross-Sector Complexities, dedicated to local positions that must interact with multiple functions, as well as an Employee Management course to help branch staff manage their team.

Concerning technical-operational training, the Group provided a course on Microsoft PowerPoint 2010 as well as courses for technical and operational staff focusing on the role of ACOs as well as the WFM system (the latter will continue also in the next six months). All employees also received training and information on potential conflicts of interest they may encounter in the discharge of their duties: the meetings were held at all the Group's Offices and involved Heads of Department and Business Units, DTG Heads, and Area Heads as in-house trainers. Lastly, the Group is currently providing training pursuant to Italian Legislative Decree no. 38 on anti-corruption.

In partnership with QSA, the Group organised and provided the following Workplace Safety training initiatives:
- First aid courses (basic and refresher training) for nearly 350 employees across the country;
- individual courses for the new CSEs, including basic (120 hours) or refresher (40 hours) training.

12. IT systems

In 2017, the Company launched a major project that involved all applications and allowed to implement into the IT system the new organisational structure of the North, North-West, South-East, and South-West Departments.

Concerning regulations, in 2017 the Company continued conforming its systems to AEEGSI resolutions.

As for the initiatives intended to make Territorial Areas more efficient, in the first half of the year, the Group completed the roll-out of WFM (Work Force Management) functionalities across all areas, allowing to manage operations together with subcontractors that use the same platform as well as share work plans and billing statements. Another initiative concerned the review of the technical quoting process for user requests, intended to reduce the number of on-site surveys by leveraging information on concession arrangements as well as technical/cartographic information.
In the first six months of 2017, the Group continued design work to make operational processes more efficient, implementing emergency service and Electronic Meter large-scale replacement management functionalities on tablets in an integrated manner.
In early 2017, the Group also launched the new system to manage employee attendance and business travel, based on the SAP HCM platform: the Employee Self Service and Manager Self Service functionalities are integrated with the company intranet, optimising the month-end close process.
The Group activated the WebEDI electronic invoicing process on the new procurement platform, extending this functionality to all qualified suppliers.
The Group also finished implementing the Business Intelligence solution intended to automate and improve the Management Reporting process by allowing Head Office and Branch Office organisational structures to perform analyses.
Lastly, the Group launched a feasibility study of the Asset management review programme to optimise and complete the supporting processes and applications.

In the first six months of the year, the Group completed significant actions undertaken as part of the Cybersecurity programme launched last year to improve resilience to email and internet attacks. Besides crucial measures to block email attack attempts, the Group also started monitoring all mobile equipment using a Mobile Device Management (MDM) and Antivirus platform to minimise the risk arising from the use of these devices connected to the corporate IT system.

13. Research and development

No research and development took place during the period.

14. Risk management

As stated in the Directors' Report, in the section concerning Enterprise Risk Management, here below are the main financial risks that characterise the sector in which the 2i Rete Gas Group operates. Regarding liquidity, credit and market risks, reference should be made to the relevant section in the notes to the consolidated financial statements.

14.1 Operational risks

Operating natural gas distribution networks involves the risks of malfunction or unanticipated interruption of the service, due to factors that are not under the Group's control, such as accidents, breakdowns or malfunctions of equipment or control systems, underperformance of the plants, and extraordinary events such as explosions, fires, earthquakes, landslides, and other natural disasters. These events can result in an interruption of the service, significant damage to people or property as well as the environment, and/or economic and social turmoil.
Any service interruptions, underperformance, or inadequacy of the Group structures and/or the consequent obligations to provide compensation could result in a reduction in revenues, an increase in costs, and/or regulatory actions. The Group has taken out specific insurance policies against these risks that are considered to adequately cover any type and amount of damage that could be caused.

14.2 Regulatory risks

The Group may be exposed to risks related to changes in the tariffs for regulated natural gas distribution activities. For example, a change in the regulatory variables or in the method used for regulation – including, but not limited to, in how the contributions received to develop the network and infrastructure are included in the tariff in each regulated period – will impact the tariffs applicable to the Group's business, with negative repercussions on revenues and margin.
The regulatory period has a six-year duration, and the WACC (weighted average cost of capital) is reviewed every three years.

14.3 Risks deriving from future changes in natural gas consumption

Although the regulated income of the Group's operating companies does not directly depend on distribution volumes, and therefore the Group is not exposed to any risks concerning natural gas demand volumes, a prolonged economic crisis or other external event that may cause a decrease in gas consumption could result in more government involvement and changes to the legal framework, which could negatively affect the Group. The development of alternative technologies replacing natural gas with other energy carriers could represent such a risk as to cause the service's penetration rate to decline and, looking forward, the infrastructure to become less competitive.

14.4 Environmental and safety risks

Operating and maintaining gas distribution networks is potentially dangerous and could cause damage to the public and/or Group employees. The Group is subject to Italian and

European Union laws and regulations that govern health and safety to protect the public and employees.
As part of its operations, the Group uses potentially hazardous products and sub-products, and the work sites in which it operates are subject to laws and regulations (including zoning laws) regarding pollution, environmental protection, and the use and disposal of hazardous substances and waste.
These laws and regulations expose the Group to costs and liabilities associated with its operations and plants, including in relation to waste disposal.
The costs for any future environmental restoration obligations involve uncertainty as to the extent of the contamination, the appropriate corrective actions, and the Group's responsibility – which are often hard to estimate.
To mitigate this risk, the Group has taken out specific insurance policies covering both the cost of containing a potential contamination as well as of the relevant restoration and damage caused.

15. Outlook

In 2017, the Group will continue improving operational efficiency and curbing costs. Currently, the profitability for 2017 is expected to be in line with the first half of the year.
In particular, the actions undertaken by the 2i Rete Gas Group seek to:

- continue reducing the number of workplace injuries by improving work quality and safety across its operations;
- concentrate resources on the highest-value-added network operations through increasingly focused and specialised operational structures;
- implement the major maintenance programme for gas networks approaching the end of their useful life;
- continue monitoring and preparing ATEM tenders in order to promptly seize the best market opportunities;
- pursue and improve the use of IT tools in order to boost efficiency;
- leverage the functionalities made available by innovation to pursue and improve corporate processes and systems as well as open up new opportunities.

2i Rete Gas S.p.A.
Chief Executive Officer
Michele Enrico De Censi

Consolidated Interim Report

Financial Statements

III. Income Statement

Thousands of euro	Notes	30.06.2017	of which from related parties	30.06.2016	of which from related parties
Revenues					
Revenues from sales and services	5.a	298,768	0	292,899	0
Other revenues	5.b	97,658	266	42,317	250
Revenues from intangible assets/assets under construction	5.c	97,979		95,226	
Sub-Total		**494,406**		**430,442**	
Costs					
Raw materials and consumables	6.a	35,420		39,897	
Services	6.b	102,674	247	93,286	
Personnel costs	6.c	57,108	1,180	59,576	1,253
Amortisation, depreciation and impairment losses	6.d	76,453		77,857	
Other operating costs	6.e	104,203	151	44,932	172
Capitalised costs for internal work	6.f	(512)		-	
Sub-Total		**375,346**		**315,548**	
EBIT		**119,060**		**114,894**	
Income (expenses) from equity investments	7	65	65	141	141
Financial income	8	685	0	105	
Financial expenses	8	(49,890)		(22,460)	
Sub-Total		**(49,140)**		**(22,214)**	
Pre-tax profit (loss)		**69,920**		**92,679**	
Taxes	9	21,956		31,903	
Net profit (loss) from continuing operations		**47,963**		**60,777**	
Net profit (loss) from discontinued operations	10	-		-	
NET PROFIT (LOSS) FOR THE PERIOD		**47,963**		**60,777**	

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IV. Statement of Comprehensive Income

Thousands of euro	30.06.2017	30.06.2016
Net profit (loss) recognised in profit or loss	**47,963**	**60,777**
- Net profit (loss) for the period attributable to owners of the parent		
- Net profit (loss) for the period attributable to non-controlling interests		
Other comprehensive income		
Items which will never be reclassified to profit/(loss):		
Revaluations of net liabilities/assets for defined benefits - owners of the parent	107	(2,501)
Revaluations of net liabilities/assets for defined benefits - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified in profit / (loss) - non-controlling interests		
Deferred tax assets and liabilities on items which will never be classified in profit / (loss) - owners of the parent	(31)	715
	77	(1,786)
Items which may subsequently be reclassified to profit/(loss):		
Change in fair value of hedging derivatives - owners of the parent		-
Change in fair value of hedging derivatives - non-controlling interests	9,668	
Change in fair value of hedging derivatives reclassified in profit for the period - owners of the parent		-
Change in fair value of hedging derivatives reclassified in profit for the period - non-controlling interests	-	
Change in fair value of hedging derivatives (tax effect) - owners of the parent		-
Change in fair value of hedging derivatives (tax effect) - non-controlling interests	(2,320)	
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - owners of the parent		-
Change in fair value of hedging derivatives reclassified in profit for the period (tax effect) - non-controlling interest	-	
	7,347	-
Total other comprehensive income	**7,424**	**(1,786)**
Total comprehensive income	**55,387**	**58,990**
Total comprehensive income attributable to:		
- Owners of the Parent	55,387	58,990
- Non-controlling Interests	-	0

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V. Statement of Financial Position

Thousands of euro	Notes	30.06.2017	of which from related parties	31.12.2016	of which from related parties
ASSETS					
Non-current assets					
Property, plant and equipment	11	37,500		37,780	
Intangible assets	12	2,882,020		2,862,738	
Net deferred tax assets	13	69,580		68,027	
Equity investments	14	3,440	2,923	3,375	2,858
Non-current financial assets	15	28,340		18,756	
Other non-current assets	16	48,177		45,051	
	Total	**3,069,058**		**3,035,727**	
Current assets					
Inventories	17	24,897		20,293	
Trade receivables	18	113,857	1,902	234,104	1,636
Short-term financial receivables	19	6,257	100	917	100
Other current financial assets	20	23		14	
Cash and cash equivalents	21	51,697		183,197	
Income tax receivables	22	11,260		8,196	
Other current assets	23	308,703		181,053	
	Total	**516,694**		**627,773**	
Non-current assets and disposal groups held for sale					
Non-current assets and disposal groups held for sale	37	-		-	
	Total	**-**		**-**	
TOTAL ASSETS		**3,585,752**		**3,663,499**	

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Thousands of euro	Notes	30.06.2017	of which from related parties	31.12.2016	of which from related parties
EQUITY AND LIABILITIES					
Equity - Owners of the Parent	24				
Share capital		3,639		3,639	
Treasury shares		-		-	
Other reserves		514,661		507,237	
Retained earnings (accumulated losses)		124,508		80,076	
Profit (loss) for the period		47,963		129,464	
Total equity - Owners of the Parent		**690,771**		**720,416**	
Equity - Non-controlling Interest					
Non-controlling Interests		-		-	
Profit (loss) for the period - Non-controlling Interests		-		-	
Total equity - Non-controlling Interests		**-**		**-**	
TOTAL EQUITY		**690,771**		**720,416**	
Non-current liabilities					
Long-term loans	25	2,076,533		2,148,424	
Post-employment and other employee benefits	26	47,427		48,086	
Provision for risks and charges	27	11,702		13,586	
Deferred tax liabilities	13	-		-	
Non-current financial liabilities	28	-		-	
Other non-current liabilities	29	305,070	10	303,120	10
	Total	**2,440,733**		**2,513,217**	
Current liabilities					
Short-term loans	30	-		-	
Short-term payables due to banks	31	-		-	
Short-term portion of long-term and short-term provisions	32	77,517		71,084	
Trade payables	33	178,102	995	166,737	1,363
Income tax payables	34	951		13,932	
Current financial liabilities	35	28,052		21,099	
Other current liabilities	36	169,626	0	157,013	630
	Total	**454,248**		**429,866**	
Non-current liabilities and disposal groups held for sale					
Non-current liabilities and disposal groups held for sale	37	-		-	
	Total	**-**		**-**	
TOTAL LIABILITIES		**2,894,980**		**2,943,083**	
TOTAL EQUITY AND LIABILITIES		**3,585,752**		**3,663,499**	

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VI. Statement of Cash Flows

Thousands of euro		30.06.2017	31.12.2016
A) CASH AND CASH EQUIVALENTS - OPENING BALANCE	**21**	**183,197**	**160,541**
Cash flow from operating activities			
Pre-tax profit (loss)		69,920	196,211
Taxes	9	(21,956)	(66,747)
Net profit (loss) from discontinued operations	10	-	-
1. Net profit (loss) for the period		**47,963**	**129,464**
Adjustments for:			
Depreciation	6.d	77,069	153,910
Write-downs/(Revaluations)/(Releases)	6.d	(615)	2,010
Capital (gains)/losses	5.b/6.e	9,033	11,203
Allocations to provisions for risks and charges and post-employment benefits		9,949	20,630
Financial (income)/expenses	7 and 8	49,140	47,426
2. Total adjustments		**144,575**	**235,179**
Change in net working capital			
Inventories	17	(4,604)	(6,483)
Trade receivables	18	120,900	4,030
Trade payables	33	11,364	(2,592)
Other current assets	23	(127,650)	(35,269)
Other current liabilities	36 and 37	12,613	(13,347)
Net tax receivables/(payables)	22 and 34	(16,045)	14,410
Increase/(decrease) in provisions for risks and charges and post-employment benefits	26, 27 and 32	(5,953)	(10,354)
Increase/(decrease) in provisions for deferred tax assets and liabilities	13	(3,904)	(2,914)
Other non-current assets	16	(3,126)	(13,003)
Other non-current liabilities	29	1,950	6,978
Financial income/(expenses) other than for financing activities	8	250	(1,066)
3. Total change in net working capital		**(14,204)**	**(59,610)**
B) CASH FLOW FROM OPERATING ACTIVITIES (1+2+3)		**178,334**	**305,033**
Cash flow from (used in) investing activities			
Net fixed assets		(105,142)	(226,754)
Acquisition of subsidiary and income from equity investments	7 and 14	(0)	129
Cash acquired through company acquisition		-	-
C) CASH FLOW FROM (USED IN) INVESTING ACTIVITIES		**(105,142)**	**(226,625)**
D) FREE CASH FLOW (B+C)		**73,192**	**78,408**
Cash flow from (used in) financing activities			
Dividend distribution		(85,032)	(85,032)
Change in reserves		0	-
Change in amortised cost	15, 25 and 31	(1,718)	6,551
Financial income from financing activities	8	31	130
Financial (expense) from financing activities	8	(49,486)	(46,660)
New loan	25	155,000	70,000
Receipts from bond issues	25	435,000	-
Bond settlements	25	(660,107)	
Change in other non-current financial assets	15	17	154
Change in other financial receivables	19 and 20	(5,350)	(599)
Change in other financial payables	35	6,953	(295)
E) CASH FLOW FROM FINANCING ACTIVITIES		**(204,692)**	**(55,752)**
F) CASH FLOW FOR THE PERIOD (D+E)		**(131,500)**	**22,656**
G) CASH AND CASH EQUIVALENTS - CLOSING BALANCE	**21**	**51,697**	**183,197**

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VII. Statement of Changes in Equity

Thousands of euro	Share capital	Treasury shares reserve	Legal reserve	Reserves for valuation of derivatives	Other reserves	Retained earnings (accumulated losses)	Net profit (loss) for the period	Total - Owners of the Parent	Total - Non-controlling Interests	Total Consolidated Equity
	Share capital and reserves									
Total 31 December 2015	**3,639**	**286,546**	**728**	**-**	**207,101**	**77,913**	**87,974**	**663,901**	**-**	**663,901**
Allocation of result for 2015:										
Allocation of result	-	-	-	-	-	87,974	(87,974)	-	-	-
Contribution from shareholders and payments to them as shareholders								-		-
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
Total contribution from shareholders and payments to them as shareholders								*(85,032)*		*(85,032)*
- Other changes (merger of GP GAS)	-	-	-	-	779	(779)	-	-	-	-
- Change in IAS reserves	-	-	-	13,219	(1,136)	-	-	12,083	-	12,083
- Net profit (loss) for the period recognised in profit or loss	-	-	-	-	-	-	129,464	129,464		129,464
Total 31 December 2016	**3,639**	**286,546**	**728**	**13,219**	**206,744**	**80,076**	**129,464**	**720,416**	**-**	**720,416**
Allocation of result for 2016:										
Allocation of result	-	-	-	-	-	129,464	(129,464)	-	-	-
Contribution from shareholders and payments to them as shareholders								-		-
- Dividend payout	-	-	-	-	-	(85,032)	-	(85,032)	-	(85,032)
Total contribution from shareholders and payments to them as shareholders								*(85,032)*		*(85,032)*
- Change in IAS reserves	-	-	-	7,347	77	-	-	7,424	-	7,424
- Net profit (loss) for the period recognised in profit or loss	-	-	-	-	-	-	47,963	47,963		47,963
Total 30 June 2017	**3,639**	**286,546**	**728**	**20,566**	**206,821**	**124,508**	**47,963**	**690,771**	**-**	**690,771**

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VIII. Notes

1. Format and contents of the Financial Statements

The 2i Rete Gas Group operates in the gas distribution sector. The Parent Company 2i Rete Gas S.p.A. is a public limited company and is located in Milan, Via Alberico Albricci, 10. Pursuant to article 3 of the Articles of Association, the duration of the Parent Company is until 2050.

The territorial structure of the Parent Company consists of six departments. The departmental offices are:

North West Department - Via Gazzoletto, 16/18 - 26100 Cremona (province of Cremona)
North Department - Via Francesco Rismondo, 14 - 21049 Tradate (province of Varese)
North East Department - Via Serassi, 17/Rs - 24124 Bergamo (province of Bergamo)
Central Department - Via Morettini, 39 - 06128 Perugia (Province of Perugia)
South-West Department - Via Paul Harris, 63 - 81100 Caserta (province of Caserta)
South East Department - Via Enrico Mattei - 72100 Brindisi (province of Brindisi)

On 20 September 2017, the Directors of 2i Rete Gas S.p.A. approved this condensed consolidated interim financial report prepared on a voluntary basis.
For the purposes of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 20 September 2017.
These half-year condensed consolidated financial statements are subject, on a voluntary basis, to a limited audit by PricewaterhouseCoopers S.p.A.

2. Compliance with IFRS/IAS

This condensed consolidated interim financial report at 30 June 2017 has been prepared in compliance with (i) the International Accounting Standards (IAS) or the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and effective at the end of the period, (ii) the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as (iii) the interpretations of the Standing Interpretations Committee (SIC) effective at the same date. In particular, this condensed consolidated interim financial report has been prepared in compliance with IAS 34 - Interim Financial Reporting. The above standards and interpretations are hereinafter referred to as “IFRS-EU”.

3. Basis of presentation

The consolidated interim financial report consists of the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity, and the Notes.
The assets and liabilities reported in the Statement of Financial Position are classified on a "current/non-current basis", separately disclosing the assets and liabilities held for sale.
Current assets, which include cash and cash equivalents, are those intended to be sold, consumed or realised as part of the normal operating cycle or within 12 months after the balance sheet date; current liabilities are those expected to be settled in the normal operating cycle or within 12 months after the balance sheet date.
Items in the Income Statement are classified based on the nature of expenses, while the Statement of Cash Flows is presented using the indirect method.
The consolidated interim financial report is presented in euro (the functional currency) and the amounts reported in the notes are expressed in thousands of euro, unless otherwise stated.
The consolidated interim financial report has been prepared using the historical cost approach, except for those line items that, in accordance with IFRS-EU, are measured at fair value, as indicated in the measurement basis for the individual items.
This consolidated interim financial report has been prepared on a going concern basis, as detailed in the Directors' Report.

4. Reporting and valuation criteria

In preparing the consolidated interim financial report, the Group has used the same accounting policies as those used in preparing the consolidated financial statements for the year ended 31 December 2016.

There are no new standards, amendments to existing standards, or interpretations effective for annual periods beginning on or after 1 January 2017 requiring the change of accounting policies or make retrospective adjustments following their first-time application.

Standards endorsed by the European Union and not yet applicable

- IFRS 15 – "Revenue from contracts with customers". According to this standard, revenue is recognised when the customer acquires control of goods and services and, therefore, has the ability to direct their use and obtain the relevant benefits.
  When an entity agrees to provide goods or services for consideration that varies upon certain future events occurring or not occurring, an estimate of variable consideration is included in the transaction price only if it is highly probable. In the case of transactions involving the sale of multiple goods and/or services, the selling price must be allocated based on the price that the entity would charge a customer on a stand-alone basis for each good or service included in the contract. Entities sometimes incur costs, such as

sales commissions, to obtain or fulfil a contract. Contract costs that meet certain criteria are capitalised and recognised in profit or loss over the life of the contract. In addition, the standard specifies that an entity should adjust the selling price, if it includes a significant financing component. IFRS 15 will be effective for the first interim period within annual reporting periods beginning on or after 1 January 2018.
The Group believes that this standard does not apply to the specific market in which it operates and that its application will not have a particular impact.

- IFRS 9 – "Financial instruments". The final version of the standard, published on 24 July 2014, includes the three phases ("classification and measurement", "impairment", and "hedge accounting") of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification and measurement of financial assets. The new standard reduces the number of categories of financial assets in IAS 39 to three and requires that all financial assets be (i) classified based on the entity's business model for managing financial assets and their contractual cash flow characteristics, (ii) initially measured at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs, and (iii) subsequently measured at fair value or amortised cost. In addition, under IFRS 9 embedded derivatives that are within the scope of this IFRS must no longer be separated from the host contract, and the entity may decide to recognise the changes in fair value of the investments, that are within the scope of this IFRS, directly in other comprehensive income. The new impairment model introduced by IFRS 9 no longer requires a trigger event to have occurred before impairment losses are recognised; on the contrary, it requires to recognise expected credit losses at all times and to update their amount at each reporting date to reflect changes in the credit risk of financial instruments. IFRS 9 introduces a three-stage model for impairment accounting. The measurement of impairment losses varies based on which stage financial assets are in. IFRS 9 makes the accounting for hedging instruments more aligned with the way entities manage their risks in order to reduce and/or eliminate the exposure to financial and non-financial risks. The new model introduced by IFRS 9 allows using internally generated documentation as the basis for implementing hedge accounting. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018.
  The Group is currently quantifying the impact of the application of the new standard.

Standards not yet endorsed by the European Union

- IFRS 16 – "Leases". The standard replaces IAS 17 – "Leases," and the main change is the requirement for entities to recognise all lease agreements in the statement of financial position as assets or liabilities by taking into account the substance of the transaction or contract. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019, save and except for any subsequent deferrals following the European Union's endorsement of the standard, which was yet to be endorsed at the date of these condensed consolidated interim financial statements.

- Amendment to IAS 12 – “Recognition of Deferred Tax Assets on Unrealised Losses”. The amendments clarify the accounting for deferred tax assets related to debt instruments measured at fair value.

- Amendment to IAS 7 – “Disclosure initiative”. The amendments concern the disclosures that entities must provide to allow investors to evaluate changes in liabilities arising from financing activities.

- Clarifications to IFRS 15. The purpose of the document is to clarify the guidelines on IFRS 15 concerning the issues that emerged from the discussions of the “Transition Resource Group of revenue recognition” (TRG).

- Amendments to IFRS 2 - “Clarification and Measurement of Share-based Payment Transaction”. The amendments are intended to better define the accounting treatment of share-based payments.

- Amendments to IFRS 4 - “Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts”. The amendments are intended to better define the accounting treatment of insurance contracts in light of the new provisions to be introduced by IFRS 9.

- Annual Improvements to IFRSs 2014–2016 Cycle – The provisions will amend: (i) IFRS 1, eliminating short-term exemptions for first-time adopters; (ii) IAS 28, concerning the accounting for associates and joint ventures; (iii) IFRS 12, clarifying the scope of the standard.

- IFRIC Interpretation 22 - “Foreign currency transactions and advance considerations”. The amendments are intended to better define the accounting treatment of foreign currency transactions.

- IFRIC 23 – “Uncertainty over Income Tax Treatments”. This new international accounting standard will provide clarification on how to reflect the uncertainty over the tax treatment of a particular situation in accounting for income taxes.

- IFRS 17 – “Insurance contracts”. This new international accounting standard addresses how to account for insurance contracts and will replace IFRS 4.

- Amendments to IFRS 10 and IAS 28 - “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”. The amendments are intended to better define the accounting treatment of gains or losses on transactions with joint ventures or associates accounted for using the equity method.

5. Use of estimates

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. As these are estimates, actual results may differ from those presented in these financial statements.
The critical judgements made in preparing this consolidated interim financial report, as well as the key sources of estimation uncertainty, are the same as those in the financial statements for the year ended 31 December 2016.

IX. Information on the Income Statement

Revenues

The transport of methane gas takes place exclusively within Italy.
The Group did not provide segment reporting pursuant to the requirements of IAS 34 and IFRS 8 (Operating Segments) due to the substantial uniqueness of its business.

5.a Revenues from sales and services – 298,768 thousand euro

"Revenues from sales and services" mainly refer to the gas transport activity and the connection fees.

Here is the breakdown of "Revenues from sales and services":

Thousands of euro

	30.06.2017	30.06.2016	2017 - 2016
Sales and services			
Third parties:			
Gas and LPG transport	279,372	273,710	5,662
Provision for risks	(884)	(1,285)	401
Connection fees	5,518	7,452	(1,934)
Ancillary fees	2,823	2,808	15
Revenues from the sale of water	824	956	(132)
Ancillary services – water sector	178	161	17
Revenues from customer operations	33	28	5
Revenues from purification/sewerage management	352	415	(63)
Sundry revenues and other sales and services	10,554	8,655	1,899
Total revenues from sales and services	**298,768**	**292,899**	**5,870**

Revenues from gas transport totalled 279,372 thousand euro and largely consisted of the portion for the first half of the 2017 Tariff Revenue Cap for natural gas (279,034 thousand euro) and LPG (338 thousand euro).
The rise from the previous year was the result of an actual tariff increase, also thanks to the operation of the concessions handed over to the Group in 2016.

Connection fees totalled 5,518 thousand euro, down 1,934 thousand euro from the prior-year period because of the lacklustre growth in new customers during the period.

As in the prior year, the prepayments relating to these fees were calculated. Specifically, the connection fee is a set amount defined through a specific quote according to the type of service requested, and consists of:

- the cost of the material required;
- labour costs;
- the proportion for the coverage of overheads.

Revenues from the sale of water were influenced by the additional water concessions released in April.
The 1,899 thousand euro increase in "sundry revenues and other sales and services" was largely attributable to the recognition of the revenues from the reading of meters during the transfer phase, pursuant to the recent Resolution 102/2016/R/com.

5.b Other revenues – 97,658 thousand euro

"Other revenues" totalled 97,658 thousand euro (42,317 thousand euro in the prior-year period), up by 55,341 thousand euro.
This was largely attributable to higher revenues from Energy Efficiency Certificates as a result of the increase in both the number of certificates purchased during the period and their average value. The Group made 57,467 thousand euro in gains on white certificates during the reporting period. This line item must be considered together with the purchase price of the certificates: under the current regulatory framework, these are assigned a price by GSE based on the average of the prices observed in the market for energy efficiency certificates.
During the first six months of the year, gains on the sale of assets, which totalled 4,853 thousand euro in the prior-year period (506 thousand euro at June 2017) thanks to the sale of the concessions in the so-called "Lariano Triangle", moved back in line with previous years.
"Other revenues and income and services" rose 1,277 thousand euro, as the handling of customers in default made a significant contribution to revenues. The company recognises the relevant costs as incurred.
Estimated revenues from the so-called "technical quality" (res. 574/13) were up 436 thousand euro, contributing a total of 4,564 thousand euro to this line item.

5.c Revenues from intangible assets / assets under construction – 97,979 thousand euro

As from 1 January 2010, the Company has been recognising these revenues pursuant to IFRIC 12 "Service Concession Arrangements".
Compared to the same period last year, they were up by 2,753 thousand euro.

Revenues from intangible assets and assets under construction represent the proportion of revenues directly attributable to the construction and enhancement of gas distribution networks held under concession. Since it is not possible to identify a specific item relating to the network construction service in the existing tariff system, these revenues are recognised to the extent of the costs incurred for the same purpose, and therefore have no impact on gross margin.

Costs

As already noted, all costs recognised under the accounting model as per IFRIC 12 are broken down by nature within the pre-existing cost items.

6.a Raw materials and consumables – 35,420 thousand euro

"Raw materials and consumables" essentially include the cost for the purchase of materials used to lay gas pipelines as well as vehicle fuel; the amount at 30 June 2017 was down from the prior-year period because of the improved terms and conditions for the supply of some basic materials such as mass-market electronic meters, which are currently being rolled out.

6.b Services – 102,674 thousand euro

"*Costs for services*" are broken down as follows:

Thousands of euro	30.06.2017	30.06.2016	2017 - 2016
Costs for services			
Third parties:			
Maintenance, repair and construction of assets	39,552	32,232	7,320
Costs for electricity, power and water	1,641	1,464	176
Gas (for internal use)	2,161	2,235	(74)
Telephone and data transmission costs	1,095	1,523	(428)
Insurance premiums	2,124	2,419	(295)
Costs for services and other expenses relating to personnel	2,238	2,456	(218)
Fees	405	469	(64)
Legal and notary fees	488	874	(387)
Costs for company acquisitions and disposals	115	5	110
Advertising	51	42	8
IT services	3,085	2,915	170
Meter reading service	3,850	2,363	1,487
Audit fees	201	210	(9)
Availability, maintenance and emergency services	2,459	2,276	182
Plant certifications Resolution no. 40	265	282	(17)
Gas transport by third parties	815	294	521
Professional and other services and consulting	1,909	1,950	(41)
Other costs for services	2,886	3,267	(381)
Costs for the use of third-party assets			
Leases	2,622	2,724	(102)
Rentals	3,614	3,564	50
Other leasehold costs	902	1,020	(118)
Fee for temporary occupation of public space (C.o.s.a.p.)	635	639	(4)
Municipal gas concession fees	29,561	28,062	1,499
Total	**102,674**	**93,286**	**9,387**
- of which capitalised for intangible assets	41,404	34,629	6,775

Costs for services increased by 9,387 thousand euro compared to the same period last year. Also in this case, please note that as from 2010, all costs relating to the operation of the concessions include network construction costs in accordance with IFRIC 12. Excluding this item, costs for services were up by 2,612 thousand euro.

The change in the costs for services, which is broken down in the table below, was mainly due to the following:

- increase in costs for maintenance, repair and realisation of assets by 7,320 thousand euro, due to the strong network activity during the half;
- energy, water and gas costs in line with the prior-year period;
- decrease of telephone and data transmission costs thanks to better contracts (428 thousand euro);
- approximately 387 thousand euro decline in legal costs, largely arising from the streamlined handling of default cases;
- 1,487 thousand euro increase in the costs for the meter reading service, which was offset by the above-mentioned revenues;
- higher costs for fees and consideration paid to municipalities by 1,499 thousand euro related to the business development activity. In this regard, please note that the scope has expanded compared to the prior-year period to include the concessions in Como and San Fermo della Battaglia.

6.c Personnel costs – 57,108 thousand euro

"Personnel costs" include all expenses incurred on an ongoing basis that directly or indirectly concern employees. They were down by 2,468 thousand euro.

The table below shows the changes for the first half of 2017 by category.

	Executives	Middle Managers	Clerks	Blue Collar	Total
Personnel at 31 December 2016	**30**	**112**	**1,140**	**701**	**1,983**
Increase	-	2	10	-	12
Decrease	(4)	(6)	(17)	(9)	(36)
Change in category	4	(3)	(3)	2	-
Personnel at 30 June 2017	**30**	**105**	**1,130**	**694**	**1,959**

6.d Amortisation, depreciation and impairment losses – *76,453 thousand euro*

Depreciation and amortisation increased by 1,102 thousand euro compared to the previous year.

This change reflected the normal life cycle of property, plant and equipment and intangible assets, while the impact of the provisions for doubtful debts recognised through profit or loss decreased by 2,544 thousand euro, as the Group reviewed the estimated recoverability of certain receivables after reaching agreements with some customers in default.

This item is broken down as follows:

Thousands of euro

	30.06.2017	30.06.2016	2017 - 2016
Depreciation	2,441	2,512	(71)
Amortisation	74,627	73,454	1,173
Impairment losses:			
- Impairment of intangible assets	38	-	38
- Write-down of trade receivables	(653)	1,891	(2,544)
	76,453	**77,857**	**(1,404)**

6.e Other operating costs – 104,203 thousand euro

"Other operating costs", which largely consisted of the costs for the purchase of Energy Efficiency Certificates, losses on the disposal of assets, and net provisions for risks and charges, were up 59,271 thousand euro from the prior-year period.
The increase was the result of the higher number as well as price of the certificates purchased (58,277 thousand euro) and the greater losses arising from the write-off and sale of assets respectively amounting to 9,508 thousand euro (6,767 thousand euro at June 2016), because of the programme to overhaul obsolete networks as well as replace conventional meters, and to 31 thousand euro (484 thousand euro at June 2016).
Net provisions for risks and charges declined slightly (773 thousand euro).
The breakdown of the relevant provisions is provided in the comments on liabilities.

6.f Capitalised costs for internal work – *512 thousand euro*

Following the introduction of IFRIC 12, the costs directly related to construction work on the network under concession are no longer accounted for as capitalised costs for internal work. For this reason, the item now includes only any residual costs that can be capitalised but do not concern concessions.

7. Income/(Expenses) from equity investments - *65 thousand euro*

The item includes the income from investments in associates and other companies. Specifically, at 30 June 2017, this item included the carrying amount of the equity-accounted investments in MEA S.p.A. and CBL Distribuzione S.r.l.

8. Financial income/(expenses) - *(49,205) thousand euro*

This item is broken down as follows:

Thousands of euro	30.06.2017	30.06.2016	2017-2016
Financial income			
- Interest income from loans to employees	0	0	0
- Interest income from bank and postal current accounts	31	75	(43)
- Interest income from receivables due from customers	27	23	4
- Other interest and financial income	626	6	619
Total income	**685**	**105**	**580**
Financial expenses			
- Interest expense on medium/long-term loans	1,807	555	1,252
- Other expense on medium/long-term loans from banks	260	787	(527)
- Financial expense on bonds	43,157	18,551	24,606
- Financial expense from amortised cost	4,262	2,038	2,224
- Discounting of post-employment and other employee benefits	370	479	(109)
- Expense for discounting of payables	-	5	(5)
- Interests on taxes and duties	1	1	0
- Other interest and financial expense	33	43	(10)
Total expense	**49,890**	**22,460**	**27,430**
TOTAL FINANCIAL INCOME AND (EXPENSES)	**(49,205)**	**(22,355)**	**(26,850)**

The Group reported 49,205 thousand euro in financial expenses, largely arising from the recognition of the financial expenses on the bond, the costs related to the outstanding loan, and the amortised cost of both of them.

During the period, the parent company undertook a complex liability management exercise to extend the average maturity of its debt without affecting its cost, taking advantage of favourable market conditions.

In short, the company reimbursed more than half of the bonds with maturity in 2019 and 2020 by using a 10-year bank credit facility and issuing a new 9-year bond: as a result, it brought forward the relevant economic impact, but also ensured the stability of the cash flows on the debt stock through 2026.

This transaction had an approximately 28.6 million euro impact on profit or loss, including 25.4 million euro as the difference between the notional amount and market value as well as 3.2 million euro from the partial settlement of the amortised cost related to the partially reimbursed bonds.

9. Taxes – *21,956 thousand euro*

This item is broken down as follows:

Thousands of euro	30.06.2017	30.06.2016	2017 - 2016
Current taxes			
Current income taxes: IRES	20,311	28,656	(8,345)
Current income taxes: IRAP	5,623	5,811	(188)
Total current taxes	**25,934**	**34,467**	**(8,533)**
Adjustments for income tax expense for prior years			
Negative adjustments for income tax expense for prior years	0	136	(136)
Positive adjustments for income tax expense for prior years	(74)	(146)	72
Total adjustments for income tax expense for prior years	**(74)**	**(11)**	**(63)**
Deferred tax assets and liabilities			
Deferred tax liabilities (use) / provision	(1,802)	(2,346)	544
Deferred tax assets (provision) / use	(2,102)	(203)	(1,899)
Total current deferred tax assets and liabilities	*(3,904)*	*(2,549)*	*(1,354)*
Adjustments to deferred tax liabilities from prior years due to tax rate chang	-	1	(1)
Adjustments to deferred tax assets from prior years due to tax rate change	-	(5)	5
Total adjusted deferred tax assets and liabilities	-	*(4)*	*4*
Total deferred tax assets and liabilities	**(3,904)**	**(2,554)**	**(1,350)**
TOTAL TAXES	**21,956**	**31,903**	**(9,947)**

The income tax expense for the first half of 2017 totalled 21,956 thousand euro.
Specifically, it referred to:

- the recognition of the current tax expense for the year, including 20,311 thousand euro in corporate income tax (IRES) and 5,623 thousand euro in the regional tax on productive activities (IRAP); in the prior-year period, the Group's IRES tax rate was 27.5%, compared to the current 24%;
- 74 thousand euro in negative net adjustments to the income tax expense for prior years;
- the changes in deferred tax assets and liabilities reflected normal operations.

For more details on deferred tax assets and liabilities, please refer to the relevant sections in the notes to the Statement of Financial Position.

10. Discontinued operations – 0 thousand euro

The result from discontinued operations was zero, as in the previous year, since the Group did not carry out any transaction qualifying as “Discontinuing”.

X. Information on the Statement of Financial Position

Assets

Non-current assets

11. Property, plant and equipment – *37,500 thousand euro*

Following the introduction of IFRIC 12, property, plant and equipment include only those assets that are not tied to gas distribution concessions. Such assets are presented as intangible.

The breakdown of, and changes in, property, plant and equipment for the years 2015, 2016 and 2017 are reported below:

Thousands of euro	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Leasehold improvements	Assets under construction and progress payments	Total
Historical cost	14,683	36,009	4,168	22,152	47,800	13,139	1,212	139,163
Accumulated depreciation	-	(25,527)	(1,846)	(20,132)	(40,425)	(8,678)	-	(96,608)
Balance at 31.12.2015	**14,683**	**10,481**	**2,322**	**2,020**	**7,375**	**4,462**	**1,212**	**42,555**
Investments	-	65	1,191	329	1,918	146	36	3,686
Commissioning	-	1,106	-	-	-	109	(1,216)	-
Gross value	-	1,106	-	-	-	109	(1,216)	-
Acc. Amort.	-	-	-	-	-	-	-	-
Disposals	(846)	(608)	-	-	(16)	-	-	(1,470)
Gross value	(846)	(2,304)	-	(107)	(714)	-	-	(3,972)
Acc. Amort.	-	1,697	-	107	698	-	-	2,502
Reclassifications	(10)	(76)	(1,687)	-	-	-	-	(1,774)
Gross value	(10)	(90)	(1,988)	-	-	-	-	(2,088)
Acc. Amort.	-	14	301	-	-	-	-	314
Impairment losses	(210)	-	-	-	-	-	-	(210)
Gross value	(210)	-	-	-	-	-	-	(210)
Acc. Amort.	-	-	-	-	-	-	-	-
Depreciation	-	(1,034)	(89)	(690)	(2,144)	(1,051)	-	(5,007)
Total changes	**(1,066)**	**(546)**	**(585)**	**(361)**	**(242)**	**(795)**	**(1,180)**	**(4,775)**
Historical cost	13,617	34,786	3,371	22,375	49,004	13,395	32	136,579
Accumulated depreciation	-	(24,851)	(1,634)	(20,716)	(41,870)	(9,728)	-	(98,799)
Balance at 31.12.2016	**13,617**	**9,935**	**1,737**	**1,659**	**7,134**	**3,666**	**32**	**37,780**
Investments	-	180	1,436	604	584	87	17	2,908
Commissioning	-	-	-	-	-	2	(2)	-
Gross value	-	-	-	-	-	2	(2)	-
Acc. Amort.	-	-	-	-	-	-	-	-
Disposals	(621)	(125)	-	-	(0)	-	-	(746)
Gross value	(621)	(1,146)	-	(264)	(602)	-	-	(2,634)
Acc. Amort.	-	1,022	-	264	602	-	-	1,887
Reclassifications	-	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-	-
Acc. Amort.	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-
Gross value	-	-	-	-	-	-	-	-
Acc. Amort.	-	-	-	-	-	-	-	-
Depreciation	-	(448)	(89)	(254)	(1,143)	(506)	-	(2,441)
Total changes	**(621)**	**(393)**	**1,347**	**349**	**(560)**	**(418)**	**15**	**(280)**
Historical cost	12,996	33,819	4,807	22,714	48,986	13,484	47	136,853
Accumulated depreciation	-	(24,277)	(1,723)	(20,706)	(42,412)	(10,235)	-	(99,353)
Balance at 30.06.2017	**12,996**	**9,543**	**3,083**	**2,008**	**6,574**	**3,249**	**47**	**37,500**

At 30 June 2017, the item decreased by 280 thousand euro compared to 31 December 2016; this fall was due to the net balance of 2,908 thousand euro in investments, 746 thousand euro in disposals and 2,441 thousand euro in depreciation.

12. Intangible assets – *2,882,020 thousand euro*

Following the introduction of IFRIC 12, intangible assets include also those fixed assets that are tied to gas distribution concessions. The breakdown of, and changes in, intangible assets for the years 2015, 2016 and 2017 are reported below:

Thousands of euro	Patents and intell. property rights	Concessions and similar rights	Concessions and similar rights - Assets under construction and progress payments	Assets under construction and progress payments	Other intangible assets	Goodwill	Total
Historical cost	87,994	5,185,599	9,900	2,795	87,735	142,974	**5,516,998**
Accumulated depreciation	(77,690)	(2,590,660)	-	-	(52,069)		**(2,720,420)**
Balance at 31.12.2015	**10,304**	**2,594,939**	**9,900**	**2,795**	**35,666**	**142,974**	**2,796,578**
Investments	622	208,735	8,917	3,471	8,610	-	**230,355**
Commissioning	-	7,533	(7,533)	(2,553)	2,553	-	**-**
Gross value	-	7,533	(7,533)	(2,553)	2,553	-	**-**
Acc. Amort.	-	-	-	-	-	-	**-**
Decreases	-	(17,019)	(1)	-	-	-	**(17,020)**
Gross value	-	(54,023)	(1)	-	(118)	-	**(54,142)**
Acc. Amort.	-	37,004	-	-	118	-	**37,123**
Reclassifications	-	1,774	-	-	-	-	**1,774**
Gross value	-	2,088	-	-	-	-	**2,088**
Acc. Amort.	-	(314)	-	-	-	-	**(314)**
Impairment losses	-	(1)	(45)	-	-	-	**(47)**
Gross value	-	(3)	(45)	-	-	-	**(48)**
Acc. Amort.	-	2	-	-	-	-	**2**
Amortisation	(5,481)	(133,252)	-	-	(10,170)	-	**(148,903)**
Total changes	**(4,859)**	**67,770**	**1,337**	**918**	**993**	**-**	**66,159**
Historical cost	88,616	5,349,930	11,238	3,713	98,780	142,974	**5,695,251**
Accumulated depreciation	(83,171)	(2,687,221)	-	-	(62,121)	-	**(2,832,513)**
Balance at 31.12.2016	**5,445**	**2,662,709**	**11,238**	**3,713**	**36,658**	**142,974**	**2,862,738**
Investments	2,455	82,493	15,549	4,436	0	-	**104,932**
Commissioning	-	4,793	(4,576)	(782)	565	- -	**0.00**
Gross value	-	4,793	(4,576)	(782)	565	- -	**0.00**
Acc. Amort.	-	-	-	-	-	-	**-**
Decreases	-	(10,984)	-	-	-	-	**(10,984)**
Gross value	-	(31,360)	-	-	-	-	**(31,360)**
Acc. Amort.	-	20,376	-	-	-	-	**20,376**
Reclassifications	-	-	-	-	-	-	**-**
Gross value	-	-	-	-	-	-	**-**
Acc. Amort.	-	-	-	-	-	-	**-**
Impairment losses	-	-	-	(38)	-	-	**(38)**
Gross value	-	-	-	(38)	-	-	**(38)**
Acc. Amort.	-	-	-	-	-	-	**-**
Amortisation	(2,184)	(66,412)	-	-	(6,032)	-	**(74,627)**
Total changes	**271**	**9,890**	**10,973**	**3,616**	**(5,467)**	**-**	**19,283**
Historical cost	91,071	5,405,856	22,211	7,329	99,344	142,974	**5,768,785**
Accumulated depreciation	(85,355)	(2,733,257)	-	-	(68,153)	-	**(2,886,765)**
Balance at 30.06.2017	**5,716**	**2,672,599**	**22,211**	**7,329**	**31,192**	**142,974**	**2,882,020**

Intangible assets increased by 19,283 thousand euro compared to 31 December 2016; this was due to the net balance of 104,932 thousand euro in new investments, 10,984 thousand euro in decreases and 74,627 thousand euro in amortisation.

The item “Concessions and similar rights” is divided into fixed assets and fixed assets under construction, which in 2016 totalled 2,662,709 thousand euro and 11,238 thousand euro, respectively; during the reporting period, fixed assets increased by 9,890 thousand euro and fixed assets under construction by 10,973 thousand euro. In general, the item refers to the recognition of the Group's rights over fixed assets as concession operator and gas distribution service provider, as well as one-off fees for the acquisition of natural gas distribution concessions.

The amortisation of concession costs was calculated using a straight-line method and based on the estimated realisable value at the end of the concession—which was recently revised to align the realisable value with the revised useful lives of conventional meters.

The Group determined the terms of the concessions using the same criteria adopted in the previous year.

In the first six months of 2017, “Assets under construction and progress payments” totalled 7,329 thousand euro, up from the prior-year period largely as a result of the costs incurred to upgrade the Workforce Management package as well as the remote reading and accounting software packages. The year-over-year increase totalled 4,436 thousand euro, and combined with 782 thousand euro in commissioning as well as (38) thousand euro in impairment losses.

“Other intangible assets” amounted to 31,192 thousand euro and concerned the software used by the Group.

"Goodwill" totalled 142,974 thousand euro. It referred to the deficit from the merger of former subsidiaries into the Group. This item was recognised in agreement with the Board of Statutory Auditors.

Goodwill was tested for impairment at 31 December 2016. In the first half of 2017, there were no impairment indicators, therefore the company will test goodwill for impairment at 31 December 2017.

13. Deferred tax assets – 173,702 thousand euro and Deferred tax liabilities – 104,122 thousand euro

Deferred tax assets and deferred tax liabilities are determined based on the tax rates that have been enacted at the reporting date. Deferred tax assets totalled 173,702 thousand euro (171,631 thousand euro at 31 December 2016), while deferred tax liabilities totalled 104,122 thousand euro (103,604 thousand euro at 31 December 2016).

Deferred tax assets and liabilities at 30 June 2017 were determined using the tax rates in force: 24% for IRES and 4.57% for IRAP.

Considering, among other things, the flows estimated in the most recent business plans, the Group believes it can use deferred tax assets in the ordinary course of business.

Thousands of euro	At 31.12.2016	Adjustments to UNICO	At 01.01.2017	Increases recognised through		Decreases recognised through		Other changes		Balance at 30.06.2017
				Income Statement	Equity	Income Statement	Equity	Income Statement	Equity	
Deferred income tax assets:										
allocation to provisions for risks and charges with deferred deductibility	**18,237**	-	18,237	2	-	(7)	-	-	-	**18,231**
allocation to provisions for exit and stock option	**991**	-	991	-	-	(221)	-	-	-	**770**
allocation to provisions for disputes	**4,698**	-	4,698	2,912	-	(1,355)	-	-	-	**6,255**
allocation to obsolescence allowance	**3,303**	-	3,303	9	-	(63)	-	-	-	**3,249**
impairment losses with deferred deductibility (write-down of receivables)	**2,643**	-	2,643	-	-	(197)	-	-	-	**2,446**
impairment losses with deferred deductibility (write-down of plants)	**1,900**	-	1,900	-	-	-	-	-	-	**1,900**
depreciation and amortisation with deferred deductibility	**80,952**	-	80,952	4,669	-	(1,970)	-	-	-	**83,652**
separation of land/buildings and component analysis	**114**	-	114	-	-	-	-	-	-	**114**
start-up costs	**2,225**	-	2,225	-	-	-	-	-	-	**2,225**
post-employment and other employee benefits	**2,791**	-	2,791	494	-	(578)	-	-	-	**2,707**
taxes and duties deductible on a cash basis	**12**	-	12	-	-	-	-	-	-	**12**
proceeds subject to deferred taxation (connection fees)	**32,381**	-	32,381	7	-	(485)	-	-	-	**31,903**
charges with deferred deductibility	**17,901**	-	17,901	8	-	(1,122)	-	-	-	**16,787**
goodwill	**1,135**	-	1,135	-	-	-	-	-	-	**1,135**
post-employment benefits - Italian Accounting Body (OCI)	**2,267**	-	2,267	-	-	-	(31)	-	-	**2,236**
for losses recoverable in future years	**(0)**	-	(0)	-	-	-	-	-	-	**(0)**
other consolidation adjustments	**82**		82			(1)				**81**
Total	**171,631**	**-**	**171,631**	**8,101**	**-**	**(5,999)**	**(31)**	**-**	**-**	**173,702**
Deferred income tax liabilities:										
differences on property, plant and equipment and intangible assets – additional depreciation and amortisation	**26,181**	-	26,181	165	-	(402)	-	-	-	**25,944**
differences on intangible assets – goodwill	**6,027**	-	6,027	-	-	(396)	-	-	-	**5,631**
separation of land/buildings and component analysis	**3,827**	-	3,827	-	-	-	-	-	-	**3,827**
allocation to assets of costs relating to company mergers	**42,070**	-	42,070	-	-	(826)	-	-	-	**41,244**
post-employment benefits	**887**	-	887	-	-	-	-	-	-	**887**
proceeds subject to deferred taxation	**1,257**	-	1,257	-	-	(111)	-	-	-	**1,146**
derivative financial instruments (in case of a net positive change in the relevant equity reserve)	**4,174**	-	4,174.41	-	2,320	-	-	-	-	**6,495**
others…	**1,566**	-	1,566	19	-	(106)	-	-	-	**1,479**
derivative financial instruments and ASEM – Italian Accounting Body (OCI)	**16**	-	16	-	-	-	-	-	-	**16**
recognition of deferred tax liabilities due to merger	**17,597**	-	17,597	28	-	(173)	-	-	-	**17,452**
other consolidation adjustments	**0**		0							**0**
5% dividends received allocated to future years on an accrual basis	**1**	-	1	-	-	-	-	-	-	**1**
Total	**103,604**	**-**	**103,604**	**212**	**2,320**	**(2,013)**	**-**	**-**	**-**	**104,122**
Net deferred tax assets	**68,027**	**-**	**68,027**	**7,890**	**(2,320)**	**(3,986)**	**(31)**	**-**	**-**	**69,580**

14. Equity investments – 3,440 thousand euro

The following table shows the changes for each equity investment during the period, as well as the corresponding opening and closing amounts, and the list of equity investments in associates and other companies.

Thousands of euro	Carrying amount	% ownership	Contribution from change in the scope of consolidation:	Increases for the period	Disposals	Other increases	Other decreases	Adjustments	Original cost	Increase / (Decrease)	Carrying amount	% ownership
	at 31.12.2016		Changes in 2017						at 30.06.2017			
Associates												
Equity Method												
Melegnano Energie Ambiente SpA	2,490	40.00%		101					2,451	101	2,553	40.00%
CBL Distribuzione Srl	368	40.00%		11					360	11	371	40.00%
Other Companies												
Cost Method												
Interporto di Rovigo S.p.A.	42	0.30%							42		42	0.30%
Fingranda S.p.A.	26	0.58%							26		26	0.58%
Agenzia di Pollenzo S.p.A.	33	0.27%							33		33	0.27%
Industria e Università S.r.l.	11	0.09%							11		11	0.09%
Azienda Energetica Valtellina Valchiavenna S.p.A.	405	3.37%							405		405	3.37%
Terme di Offida Spa	1	0.19%							1		1	0.19%
Asogas S.p.A. in liquidazione	-	9.00%							-		-	9.00%
Alpifiere S.r.l. in fallimento	-	3.00%							-		-	3.00%
TOTAL EQUITY INVESTMENTS	**3,375**		**-**	**112**	**-**	**-**	**-**	**-**	**3,329**	**112**	**3,440**	

The following tables show the list of equity investments in the Group's investees at 30 June 2017:

B) Associates	Registered office	Share Capital (euro)	Equity (euro)	Revenues (euro)	Profit/loss latest year (euro)	Reporting date	% ownership	Consolidated carrying amount (euro)
Melegnano Energie Ambiente SpA	Melegnano (MI)	4,800,000	6,381,392	6,019,849	155,628	31.12.2016	40.00%	2,552,557
CBL Distribuzione Srl	Mede (PV)	170,000	926,998	2,871,076	7,464	31.12.2016	40.00%	370,799

C) Other companies	Registered office	Share Capital (euro)	Equity (euro)	Revenues (euro)	Profit/loss latest year (euro)	Reporting date	% ownership	Carrying amount (euro)
Interporto di Rovigo S.p.A.	Rovigo	5,836,159	5,571,811	1,151,895	(281,664)	31.12.2016	0.30%	41,634
Fingranda S.p.A.	Cuneo	2,662,507	1,852,874	39,504	(219,260)	31.12.2015	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	23,891,709	953,464	85,636	31.12.2016	0.27%	33,082
Industria e Università S.r.l.	Varese	13,440,528	11,217,654	-	(29,974)	31.12.2016	0.09%	10,989
Azienda Energetica Valtellina Valchiavenna S.p.A.	Tirano (SO)	1,803,562	20,716,406	6,842,046	1,768,068	31.12.2016	3.37%	405,000
Terme di Offida Spa	Offida (AP)	141,384	132,720	-	(8,711)	31.12.2015	0.19%	548
Asogas S.p.A. in liquidazione	Amandola (FM)	2,182	(47)	100	(2,229)	31.12.2016	9.00%	-
Alpifiere S.r.l. in fallimento	Morbegno (SO)	10,330	0	-	0	31.12.1998	3.00%	-

15. Non-current financial assets – *28,340 thousand euro*

The item largely included the fair value measurement of the outstanding interest rate hedging derivative, with a notional amount of 500 million euro, and the prepayment of transaction costs incurred to obtain credit lines that were granted but had still not been used at 30 June 2017.

16. Other non-current assets – *48,177 thousand euro*

This item increased by 3,126 thousand euro compared to 31 December 2016.

Guarantee deposits totalled 3,089 thousand euro and referred to receivables for work to be performed on distribution plants as well as from user contracts.

The 560 thousand euro receivable for grants to be received was attributable to the recognition of the medium/long-term portion of receivables for grants related to plants to be received: this item was unchanged during the period.

Tax receivables reimbursements applied for, totalling 1,598 thousand euro, refer to the refund claimed pursuant to article 6 of Italian Law Decree 185/2008 (Deduction of IRES from the IRAP portion for labour costs and interest expense).

Sundry non-current assets totalled 14,210 thousand euro (12,830 thousand euro at 31 December 2016) and largely referred to fees paid in advance to contracting authorities in preparation of ATEM tenders (8,380 thousand euro).

The same line item included also 8,731 thousand euro in receivables due from Municipalities for plants sold at the end of the concession arrangement and that are the subject of ongoing disputes concerning the final calculation of the compensation, as well as the balance of long-term receivables concerning the losses incurred in replacing conventional meters with electronic ones (19,973 thousand euro).

Current assets

17. Inventories – *24,897 thousand euro*

Closing inventories of raw materials rose by 4,604 thousand euro from the previous year. Specifically, closing inventories of raw and ancillary materials and consumables mainly consist of materials for the construction and maintenance of gas and water distribution plants.
The increase during the period was due to the roll out of the new electronic meters, which required the Group to secure additional stock.
The item included the 417 thousand euro obsolescence allowance set aside to take into account the inventories that are unlikely to be used in the future. In the first six months of the year, the Group used 219 thousand euro and set aside 33 thousand euro.
The Company uses the weighted average cost method.

18. Trade receivables – *113,857 thousand euro*

Trade receivables were down 120,247 thousand euro compared to 31 December 2016. Receivables due from third-party customers consist of trade receivables and receivables from operations, and largely include receivables related to gas distribution operations and, to a lesser extent, the billing for water plant operations.

This item is broken down as follows:

Thousands of euro

	30.06.2017	31.12.2016	2017 - 2016
Third-party customers:			
Receivables due from customers	125,992	247,925	(121,933)
- Provision for doubtful debts	(12,135)	(13,821)	1,686
Total	**113,857**	**234,104**	**(120,247)**

Receivables from third-party customers are affected by the seasonality of the Group's business, and therefore saw a significant but inevitable decrease at the reporting date. For comparative purposes, in the first half of 2016 receivables due from customers net of the relevant provision for doubtful debt amounted to 131,017 thousand euro.

Here below is the breakdown of the changes in the provision for doubtful debts.

Thousands of euro

	30.06.2017	31.12.2016	2017 - 2016
At 31 December 2016	**13,821**	**13,653**	**168**
Allocations	145	1,892	(1,747)
Releases	(798)	(525)	(274)
Uses	(1,033)	(1,199)	166
At 30 June 2017	**12,135**	**13,821**	**(1,686)**

The Group operated exclusively in Italy.

19. Short-term financial receivables – *6,257 thousand euro*

Short-term financial receivables consisted of financial receivables due from Gestore dei Mercati Elettrici and included 100 thousand euro in receivables for dividends to be received. The receivables due from GME amounted to 6,148 thousand euro and referred to the liquidity deposited with GME in order to trade on the exchange for Energy Efficiency Certificates.

20. Other current financial assets – *23 thousand euro*

Other current financial assets consisted of accrued income on interest-bearing bank deposits.

21. Cash and cash equivalents – *51,697 thousand euro*

Cash and cash equivalents declined by 131,500 thousand euro as a result of the cash flows used during the period for the purposes of the dividend distribution and the liability management exercises.
Bank deposits decreased by 131,347 thousand euro and postal and cash deposits were down by 153 thousand euro.

Cash associated with operating activities is held in bank and post office deposits.

22. Income tax receivables – *11,260 thousand euro*

Income tax receivables due from Italian tax authorities consisted mainly of:

- 3,338 thousand euro in IRES receivables for the excess estimated tax payments related to the Robin Hood Tax;
- 3,321 thousand euro in IRES receivables for additional excess estimated tax payments;
- 4,505 thousand euro in the IRES refund that the Group claimed for the failure to deduct the IRAP on personnel costs (pursuant to Italian Legislative Decree 201/2011);
- 40 thousand euro in IRAP receivables;

compared to the previous year, receivables were up 3,064 thousand euro due to the estimated tax payments made.

23. Other current assets – *308,703 thousand euro*

Other current assets rose by 127,650 thousand euro compared to 31 December 2016, mainly as a result of:

- 121,118 thousand euro increase in receivables due from the Compensation Fund. This was largely attributable to the increase in receivables for the energy saving goals achieved with reference to the Energy Efficiency Certificates purchased. The item is correlated with the payables due to the Compensation Fund reported in note 36 "Other current liabilities";
- 489 thousand euro decline in receivables due from Municipalities after settling a number of disputes;
- 1,060 thousand euro increase in prepayments for insurance premiums and a 5,600 thousand euro rise in sundry prepayments due to the seasonal pattern of prepayments for third-party software licensing costs and the concession fees paid to Municipalities.

The item is broken down as follows:

Thousands of euro

	30.06.2017	31.12.2016	2017 - 2016
Other tax receivables:			
VAT receivables claimed for refund	906	933	(27)
Other tax receivables	122	117	6
Other receivables:			
due from pension and insurance agencies	1,208	340	867
for grants related to plants to be received	1,851	1,529	322
from CSEA	289,670	168,553	121,118
from municipalities for disposals of assets due to expiration of concessions	2,173	2,662	(489)
from municipalities	246	246	-
from suppliers	1,565	1,548	18
Sundry receivables	3,562	4,150	(588)
- Provision for other doubtful debts	(1,152)	(1,152)	-
Accrued income	1	1	-
Prepayment of sundry multi-year fees	51	51	-
Prepayment of real estate lease fees	459	713	(254)
Prepayment of promotional expenses	17	-	17
Prepayment of insurance premiums	1,139	78	1,060
Other prepayments	6,885	1,285	5,600
Total	**308,703**	**181,053**	**127,650**

Liabilities

Equity

24. Equity – 690,771 thousand euro

Equity fell by 29,645 thousand euro as a result of the following changes:

- 85,032 thousand euro decline due to the ordinary dividend payout;
- 7,424 thousand euro increase in IAS reserves;
- 47,963 thousand euro increase in the profit for the period.

Share capital – 3,639 thousand euro

The share capital at 30 June 2017 amounted to 3,639 thousand euro and was entirely subscribed and paid up; the item was unchanged during the period.

Share premium reserves – *286,546 thousand euro*

The reserve was established in 2009 at the time of the capital increase, and did not change during the period.

Legal reserve – 728 thousand euro

The legal reserve amounted to 728 thousand euro and was unchanged during the period.

Reserves for valuation of derivatives – 20,566 thousand euro

The Group set up the reserve for the valuation of derivatives last year after entering into a hedging derivative with a notional amount of 500 million euro. The reserve increased by 7,347 thousand euro during the period as a result of the change in the Fair Value of derivative instruments.

Other reserves – 206,821 thousand euro

Other reserves were up 77 thousand euro from the previous year, as the Group recognised a change in IAS reserves after reviewing the value of its defined benefit obligations in accordance with IAS 19.

Retained earnings – 124,508 thousand euro

Retained earnings rose by 44,432 thousand euro from the prior-year period as a result of the recognition of the 129,464 thousand euro profit for the year ended 31 December 2016 and the distribution of dividends for (85,032) thousand euro.

Profit for the period – 47,963 thousand euro

The profit for the first half of 2017 was down by 12,813 thousand euro compared to the prior-year period largely because of the previously mentioned liability management exercise.

Non-current liabilities

25. Long-term loans (including portions due within the next 12 months) – *2,076,533 thousand euro*

The item refers to the four instalments of the long-term bond the company issued between 2014 and the first half of 2017 as part of the overhaul of its financial structure, as well as the 425,000 thousand euro loan outstanding with the European Investment Bank.
The EIB loans have some covenants that the company must meet every six months to continue using the credit lines. The covenants concern the following indicators:
Total net financial debt, RAB (Regulatory Asset Base), EBITDA, and Net Financial Expenses.
At 30 June 2017, the company met all covenants under this facility.
The table below shows long-term debt expressed in the original currency and the relevant interest rate. The notional amount of the loan is the same as its carrying amount.

Thousands of euro	Carrying amount		Notional amount		Interest rate	Interest rate
	30.06.2017	31.12.2016	30.06.2017	31.12.2016	in force	effective
Fixed rate debt	70,000	70,000	70,000	70,000	1.39%	1.39%
Fixed rate debt	155,000	0	155,000	0	1.40%	1.40%
Floating rate debt	200,000	200,000	200,000	200,000	Eur3+0.59%	0.32%
Bond maturity 2019	362,793	750,000	362,793	750,000	1.75%	1.89%
Bond maturity 2020	267,100	540,000	267,100	540,000	1.13%	1.35%
Bond maturity 2024	600,000	600,000	600,000	600,000	3.00%	3.13%
Bond maturity 2026	435,000	0	435,000		1.75%	1.91%
Costs associated with loan (long term)	(13,360)	(11,576)				
TOTAL	**2,076,533**	**2,148,424**	**2,089,893**	**2,160,000**		

The contract maturity schedule for this loan and for the instalments of the bond is set out below:

Thousands of euro	Notional at 30.06.2017	Notional at 31.12.2016	1 year	2 - 5 years	beyond 5 years
Medium/long-term financial liabilities					
Loan	425,000	270,000	-	45,455	379,545
Medium/long-term bonds	1,664,893	1,890,000	-	629,893	1,035,000
Total	2,089,893	2,160,000	-	675,348	1,414,545

The bond regulation, issued for a market of institutional investors, does not provide for covenants.
In addition, the company has a bank loan of 245 million euro outstanding from a pool of seven leading credit institutions. At the reporting date, the company had not used this facility.

26. Post-employment and other employee benefits – *47,427 thousand euro*

The Group provides employees with various types of benefits, including post-employment benefits, health benefits, compensation due instead of notice of dismissal (Indennità

Sostitutive del Preavviso - ISP) and compensation due instead of energy discount (Indennità Sostitutive Sconto Energia).

The item includes provisions for post-employment defined benefit plans and other long-term employee benefits required by law or contract.

Pursuant to IAS 19 Revised, these “defined benefit obligations” were determined using the “Projected Unit Credit Method”, which requires to calculate the liability in proportion to the service already rendered at the reporting date, and not the service that could presumably be rendered overall.

An analysis of the main items is provided below.

Post-employment benefits

Under Italian law, when the employment relationship ends, the employee is entitled to receive post-employment benefits, measured as a portion for each year of service of their gross annual compensation divided by 13.5.
Following the approval of Italian Law No. 296 of 27 December 2006 (the 2007 budget law) and subsequent decrees and enabling legislation, only the portions of post-employment benefits held with the Company qualify as a defined benefit plan, while the accrued portions allocated to supplementary pension schemes and the Treasury Fund at INPS (the Italian Social Security Agency) qualify as a defined contribution plan.

Health benefits

Based on the national collective agreement for executives in the industrial sector, executives have the right to supplemental health care in addition to the one provided by the Italian Health Service, during both the employment relationship and retirement. Asem and FASI, the health care funds set up for workers in Italy's electric industry, reimburse medical expenses.

Fondo Gas

The Italian Law Decree No. 78/2015, coordinated with Italian Law No. 125/2015 (Official Journal 14/08/2015), ordered the suppression of the so-called “Fondo Gas” (gas fund) as from 1 December 2015. The decree also provided for the payment, either to current employees or as a voluntary continuation of the contribution to the Fondo Gas, of an amount (to be paid by the employer) equal to 1% of the contribution to the Fondo Gas for 2014, for each full year or any part thereof that the person has been a member of the fund. Said amount can be set aside with the employer or paid as a contribution into the supplementary pension scheme (hereinafter referred to as Contribution to the former Fondo Gas). The provision shall be made in 240 equal monthly instalments. Should the employment relationship end before the payments are completed, the remaining amount to be paid into the Fondo Gas shall be paid in a lump sum at the time of the final wage payment.

The balance of the fund, which amounts to 11,017 thousand euro, is the best estimate at the time of the preparation of these financial statements of the liability arising from this law.

27. Provisions for risks and charges – *11,702 thousand euro*

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes, without taking into account the impact of disputes estimated to be settled in favour of the Group and those for which the potential expense cannot be measured reliably.

Provisions for risks and charges (considering both the short-term and the medium/long-term portion) increased by 4,548 thousand euro overall compared to 31 December 2016.
The table below shows the total provisions for risks and charges (both the short-term and medium/long-term portions). The short-term portion is disclosed separately.

Thousands of euro	31.12.2016	Of which current portion	Of which non-current portion	Allocations	Releases	Uses	Other changes	30.06.2017	Of which current portion	Of which non-current portion
Provisions for litigation and disputes	10,286	-	10,286	1,256	(1,748)	(1,478)	-	8,315	-	8,315
Provision for taxes and duties	937	-	937	-	(71)	(43)	-	823	-	823
Provisions for disputes with personnel	100	-	100	-	-	-	-	100	-	100
Provision for future charges	75	-	75	-	-	-	-	75	-	75
Provision for disputes on concessions	19,078	19,078	-	3,288	(14)	(60)	-	22,292	22,292	-
Other provisions for risks and charges	50,725	48,537	2,189	5,662	(1,164)	(304)	(0)	54,919	52,530	2,389
Total	**81,201**	**67,614**	**13,586**	**10,206**	**(2,998)**	**(1,885)**	**(0)**	**86,524**	**74,822**	**11,702**
Provisions for charges for voluntary redundancy	3,470	3,470	-	-	-	(775)	-	2,695	2,695	-
Total	**84,671**	**71,084**	**13,586**	**10,206**	**(2,998)**	**(2,660)**	**(0)**	**89,219**	**77,517**	**11,702**

The provisions for risks and charges amounted to 89,219 thousand euro (short-term portion: 77,517 thousand euro) and were broken down as follows:

- "Provisions for litigation and disputes" contain 8,315 thousand euro as potential liabilities mainly arising from disputes and litigation underway with certain customers due to damaging events; during the period, this line item increased by 1,256 thousand euro as the Group made additional provisions for disputes concerning tender contracts from previous years. This was offset by 3,226 thousand euro in uses and reversals largely attributable to the settlement of the dispute concerning the avoidance actions of Genia S.r.l.;
- "Provision for taxes and duties", amounting to 823 thousand euro, referred mainly to disputes about the tax on the occupation of public space (TOSAP), the fee for the temporary occupation of public space (COSAP), the municipal property tax (ICI), and other local taxes;
- "Provisions for disputes with personnel", amounting to 100 thousand euro, to cover expected charges arising from disputes with personnel of a company acquired in previous financial years. The Company did not consider it necessary to change this item in these financial statements;

- "Provision for future charges", amounting to 75 thousand euro;
- “Provision for disputes on Concessions”, totalling 22,292 thousand euro, rose by 3,288 thousand euro as a result of the claims made by municipalities relating to the review of the agreed concession fees; the Group used 60 thousand euro and released 14 thousand euro for settled disputes;
- “Other provisions for risks and charges”, amounting to 54,919 thousand euro, largely refer to the risk of a revision of some tariffs related to concessions owned by third parties; in this regard, the parent company has appealed against AEEGSI's decision to revise said tariffs for a number of concessions;
- “Provision for charges pertaining to incentives to leave”, totalling 2,695 thousand euro, addresses possible liabilities that may arise from agreements already finalised or being negotiated concerning early retirement incentives. The Group used 775 thousand euro of this provision during the period.

The fiscal position of the Parent company has been defined up to 2011.

28. Non-current financial liabilities – *0 thousand euro*

There were no changes in this item during the period.

29. Other non-current liabilities – *305,070 thousand euro*

This item increased by 1,950 thousand euro compared to the previous year. The breakdown is set out below:

Thousands of euro	30.06.2017	31.12.2016	2017 - 2016
Payables due to pension and insurance agencies	1,984	1,984	-
Other payables	361	361	-
Deferred grants related to plants	46,627	47,677	(1,050)
Deferred connection, property development, equipment transfer and network extension fees	256,098	253,098	3,000
Total deferred income	**305,070**	**303,120**	**1,950**

The deferred income for grants related to plants fell as a result of the portion accrued during the period, while the 3,000 thousand euro increase in deferred income for connection fees was mostly attributable to the fees received during the year net of the portion recognised through profit or loss to cover the operating costs incurred.

Current liabilities

30. Short-term loans – *0 thousand euro*

There were no changes in this item compared to the previous year.

31. Current portion of medium/long-term bank loans – *0 thousand euro*

There were no changes in this item compared to the previous year.

32. Current portion of long-term provisions and short-term provisions – *77,517 thousand euro*

Comments and details on this item are provided in the section on the provisions for risks and charges (note 27).

33. Trade payables – *178,102 thousand euro*

This item includes all trade and operating liabilities of certain amount and timing. All reported payables were incurred in Italy.

This item increased by 11,364 thousand euro compared to 31 December 2016.

The balance mainly consists of outstanding payables due to companies to which the Group outsourced gas distribution plant construction and maintenance operations, payables arising from personnel and operating support services, and from the purchase of electricity and gas for internal use. The trend in payables due to suppliers reflected material procurement policies as well as the work performed on obsolete networks in the first six months of the year.

34. Income tax payables – *951 thousand euro*

Income tax payables are presented net of the first estimated tax payment made in June 2017 and largely referred to IRAP payables.

35. Current financial liabilities – *28,052 thousand euro*

Current financial liabilities referred to accrued interest expenses on the Bond and the bank loan, which are due within 12 months.

Thousands of euro

	30.06.2017	31.12.2016	2017 - 2016
Accrued liabilities for interest on short-term bank loans and bank expenses	27,474	20,572	6,902
Other current financial payables	578	527	51
Total	**28,052**	**21,099**	**6,953**

36. Other current liabilities – *169,626 thousand euro*

Other current liabilities are set out below:

Thousands of euro	30.06.2017	31.12.2016	2017 - 2016
other tax payables	4,577	12,583	(8,006)
payables to welfare and social security agencies	10,908	10,234	674
other payables	137,312	118,859	18,453
accrued liabilities	4,351	4,049	302
deferred income	12,479	11,289	1,190
Total	**169,626**	**157,013**	**12,613**

Other tax payables are set out below:

Thousands of euro	30.06.2017	31.12.2016	2017 - 2016
due to Italian tax authorities for VAT	1,984	8,954	(6,969)
due to Italian tax authorities for employee withholding taxes	2,424	3,476	(1,052)
due to Italian tax authorities for withholding taxes	51	103	(52)
other payables due to Italian tax authorities	118	50	68
Total	**4,577**	**12,583**	**(8,006)**

Payables to welfare and social security agencies are set out below:

Thousands of euro	30.06.2017	31.12.2016	2017 - 2016
due to INPS	9,748	9,429	319
due to other agencies	1,160	805	355
Total	**10,908**	**10,234**	**674**

Other payables are set out below:

Thousands of euro	30.06.2017	31.12.2016	2017 - 2016
Payables due to employees	15,011	14,189	823
Payables due to municipalities for rights and fees	3,761	4,022	(261)
Payables for connections and other payables due to customers	2,051	2,076	(25)
User guarantee deposits and advances	2,225	2,289	(64)
Payables due to CSEA	108,114	90,022	18,091
Other payables	6,150	6,261	(111)
Total	**137,312**	**118,859**	**18,453**

The 108,114 thousand euro payable due to the Compensation Fund consists of payables for the items transferred through the invoicing mechanism to the trading companies, which are then paid into the Compensation Fund. The 18,091 thousand euro increase from 31 December 2016 was mainly related to the seasonal pattern of invoicing in 2017, given the already defined Tariff Revenue Cap.

Accruals and deferrals are set out below:

Thousands of euro	30.06.2017	31.12.2016	2017 - 2016
Accrued liabilities			
Additional monthly accrual due to employees	3,286	3,098	188
Other accrued liabilities	1,065	951	114
Total accrued liabilities	**4,351**	**4,049**	**302**
Deferred income			
Deferred grants related to plants	2,966	2,953	13
Deferred connection, property development, equipment transfer and network extension fees	8,337	8,116	221
Other deferred income	1,176	220	955
Total deferred income	**12,479**	**11,289**	**1,190**
Total accrued liabilities and deferred income	**16,830**	**15,338**	**1,492**

37. Liabilities held for sale – *0 thousand euro*

The liabilities held for sale in the first half of 2017 amounted to zero as in the previous year.

Related party disclosures

Related parties are identified in accordance with international accounting standards.
The definition of related parties includes key management personnel—including the close members of their family—of the Parent company as well as of the companies controlled directly and/or indirectly by it, jointly controlled entities, and those in which the Parent has significant influence. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the relevant Directors.

The most significant trade payables and receivables concern the receivables due from CBL Distribuzione.

The dividends distributed, totalling 84,981 thousand euro, refer to the distribution of the 2016 results to F2i - Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa), F2i - Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa), Finavias Sarl, Axa Infrastructure Holding S.r.l.

Pursuant to art. 2427 bis of the Italian Civil Code, financial and trade transactions between the Group and related parties are part of ordinary operations and have always been carried out at arm's length.

Trade, financial and other transactions involving the Group, its parent companies, subsidiaries, other Group companies, and the parent company’s other related parties are detailed below.

Trade and other transactions

30 June 2017

Thousands of euro	Trade Receivables	Payables	Trade Costs	Revenues
CBL Distribuzione	1,820	483	-	239
MEA S.p.A	82	-	-	27
Software Design S.p.A.	-	405	247	-
Key management personnel, including directors		117	1,332	
Total	**1,902**	**1,005**	**1,579**	**266**

31 December 2016

Thousands of euro	Trade Receivables	Payables	Trade Costs	Revenues
CBL Distribuzione	1,581	450	152	479
MEA S.p.A	55	-	-	-
Software Design S.p.A.	-	640	1,046	-
Key management personnel, including directors and auditors		914	3,028	
Total	**1,636**	**2,004**	**4,226**	**479**

Financial transactions

30 June 2017

Thousands of euro	Financial Receivables	Payables	Financial Costs	Revenues	Dividend payment
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					6,894
Finavias S. à r.l.					18,112
Axa Infrastructure Holding S. à r.l.					5,640
CBL Distribuzione				3	
MEA S.p.A	100			62	
Software Design S.p.A.	-			-	
Total	**100**	**-**	**-**	**65**	**84,981**

There were also 2,812 thousand euro in Equity investments in related parties: 360 thousand euro referred to CBL Distribuzione, and 2,451 thousand euro to MEA S.p.A.

31 December 2016

Thousands of euro	Financial Receivables	Payables	Financial Costs	Revenues	Dividend payment
F2i – Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					54,335
F2i – Secondo Fondo Italiano per le Infrastrutture (managed by F2i sgr Spa)					6,894
Finavias S. à r.l.					18,112
Axa Infrastructure Holding S. à r.l.					5,640
CBL Distribuzione				17	
MEA S.p.A	100			124	
Software Design S.p.A.	-			-	
Total	**100**	**-**	**-**	**141**	**84,981**

In 2016, there were also 2,858 thousand euro in Equity investments in related parties: 368 thousand euro referred to CBL Distribuzione, and 2,490 thousand euro to MEA S.p.A.

38. Contractual commitments and guarantees

The Group provided 99,360 thousand euro in guarantees to third parties. These guarantees include 84,309 thousand euro in bank guarantees and 15,051 thousand euro in insurance and other guarantees.
These guarantees were provided in favour of maintenance and extension work for the distribution networks as well as the participation in tenders for operating gas distribution services.
Moreover, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements that have not been disclosed in the financial statements that could significantly impact the Company's financial statements.

Operating segment reporting

The Group is managed as a single business unit operating mainly in natural gas distribution through networks, and therefore management analyses the Group's operations as a whole.
The reporting format used by management to take operating decisions is aligned with the formats used in the consolidated financial statements shown herein, excluding the impact of IFRIC 12 and highlighted in note 5.c as well as in the section on costs.

Contingent liabilities and assets

Contingent liabilities

There were no contingent liabilities at 30 June 2017.

Contingent assets

There were no contingent assets notified at 30 June 2017.

Market, credit, liquidity, and interest rate risk

Credit risk

The 2i Rete Gas Group provides its distribution services to over 260 sales companies, the most significant of which is Enel Energia S.p.A.

In relation to invoiced volumes, no significant cases of non-compliance by the counterparties were found in the first half of 2017.
The rules for the access of users to the gas distribution service are governed by the Network Code, which, in compliance with the provisions of the Regulatory Authority for Electricity and Gas, regulates the rights and obligations of the entities involved in the distribution service process, as well as the contractual clauses that reduce the risk of breach by the sales companies.
As part of gas distribution operations, the credit lines to external counterparties are carefully monitored by assessing the relevant credit risk and requiring adequate guarantees and/or security deposits, ensuring an appropriate level of protection against the risk of default by the counterparty.
Outstanding guarantees and security deposits on trade receivables totalled 114,013 thousand euro.

Therefore, the credit risk is mitigated.

A summary quantitative indication of the maximum exposure to credit risk is represented by the carrying amount of financial assets, gross of the relevant provision for doubtful debts.
At 30 June 2017, the Company's maximum exposure to credit risk amounted to 570.5 million euro:

Millions of euro

	30.06.2017	31.12.2016	2017 - 2016
Third parties:			
Non-current financial assets	28.3	18.8	9.6
Other non-current assets (gross of provision for doubtful debts)	48.3	45.2	3.1
Trade receivables (gross of provision for doubtful debts)	126.0	247.9	(121.9)
Other current financial assets	6.3	0.9	5.3
Cash and cash equivalents	51.7	183.2	(131.5)
Other receivables (gross of provision for doubtful debts)	309.9	182.2	127.7
Total	**570.5**	**678.2**	**(107.7)**

Liquidity risk

Based on the current financial structure and the expected cash flows as projected in the business plans, the 2i Rete Gas Group is able to autonomously meet the financial requirements of its ordinary operations and ensure business continuity.
Besides the bonds issued during 2014 and 2017, the Group still has the 245 million euro line of credit that the Parent Company received in 2016 from a syndicate of 7 leading banks, as well as two loans entered into with the European Investment Bank in 2015 and 2016, totalling 425 million euro (fully used at 30 June 2017), improving the duration and interest rate compared to previous bank loans.
In order to properly disclose liquidity risk as required by IFRS 7, the Company's debt is shown below.

The contractual maturities of the financial liabilities outstanding at 30 June 2017 are set forth below:

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 30 June 2017			
Long-term loans		45.5	379.5
Medium-long term bonds		629.9	1,035.0
Short-term loans	-		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	28.1		
Current financial liabilities			
Total	**28.1**	**675.3**	**1,414.5**

For comparative purposes, the contractual maturities of the financial liabilities outstanding at 31 December 2016 are set forth below:

Financial liabilities

Millions of euro	Within next year	Between 2 and 5 years	Beyond 5 years
Financial liabilities at 31 December 2016			
Long-term loans		36.4	233.6
Medium-long term bonds		1,290.0	600.0
Short-term loans	-		
Short-term payables due to banks	-		
Other long-term financial liabilities			
Other short-term financial liabilities	21.1		
Current financial liabilities			
Total	**21.1**	**1,326.4**	**833.6**

The projected liquidity requirements are estimated based on the cash flows expected from ordinary operations.
It should be noted that loans are subject to a periodical check on the compliance with some financial parameters at consolidated level.
At 30 June 2017, the Company has met all of the covenants.

The "Medium/long-term bonds" for a total of 1,664.9 million euro refer to the aforementioned four bond instalments issued by 2i Rete Gas and with 5, 6, 9 and 10-year expiries.
The Group's growth plan requires refinancing existing debt, but given the Company's excellent performance, the rating obtained, and the ongoing compliance with the financial parameters established by the lending banks, currently the Group does not face any problems in obtaining said refinancing.
The Group constantly monitors opportunities to optimise its financial structure.
For an in-depth analysis of long-term loans, see note 25 in these consolidated financial report.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices as a result of changes in exchange rates, interest rates, or the prices of equity instruments.

Transactions that qualify for hedge accounting pursuant to the requirements of the accounting standards are designated as hedging transactions, while those that do not meet such requirements are classified as trading transactions, even though from a management point of view they have been entered into for hedging purposes.

The Group had no derivatives held for trading or for speculative purposes.

Conversely, in August 2016 the parent company 2i Rete Gas entered into 5 new “Forward Starting Interest Rate Swap” hedging contracts ahead of the refinancing to be carried out within the next 3 years to replace part or all of the loan instalments near maturity.
For more details, see the “Interest rate risk” section.

In accordance with IFRS 7, the table below shows financial assets and liabilities, disclosing their carrying amount and fair value. The company has no held to maturity or available for sale financial assets nor financial assets held for trading.

Thousands of euro	Notes	Derivatives	Loans and receivables	Other financial liabilities	Total	Fair value
Financial assets measured at fair value						
Non-current financial assets	15	27,061			27,061	27,061
Financial assets not measured at fair value						
Non-current financial assets	15		1,279		1,279	1,279
Other non-current assets	16		48,013		48,013	48,013
Trade receivables	18		113,857		113,857	113,857
Short-term financial receivables	19		6,257		6,257	6,257
Other current financial assets	20		23		23	23
Cash and cash equivalents	21		51,697		51,697	51,697
Other current assets	23		300,152		300,152	300,152
TOTAL ASSETS		**27,061**	**521,279**	**-**	**548,340**	**548,340**
Financial liabilities measured at fair value						
IRS Derivatives	35	-			-	-
Financial liabilities not measured at fair value						
Long-term loan	25-31			425,000	425,000	425,000
Medium/long-term bonds	25			1,651,533	1,651,533	1,779,920
Financial liabilities for IRS Unwinding	28-35			-	-	-
Other non-current liabilities	29			361	361	361
Short-term loans	30			-	-	-
Trade payables	33			178,102	178,102	178,102
Current financial liabilities	35			27,474	27,474	27,474
Other current liabilities	36			157,147	157,147	157,147
TOTAL LIABILITIES		**-**	**-**	**2,439,617**	**2,439,617**	**2,568,003**

In order to enable comparison, we propose the same table as the one used in 2016:

Thousands of euro	Notes	Derivatives	Loans and receivables	Other financial liabilities	Total	Fair value
Financial assets measured at fair value						
Non-current financial assets	15	17,393			17,393	17,393
Financial assets not measured at fair value						
Non-current financial assets	15		1,362		1,362	1,362
Other non-current assets	16		45,198		45,198	45,198
Trade receivables	18		234,104		234,104	234,104
Short-term financial receivables	19		917		917	917
Other current financial assets	20		14		14	14
Cash and cash equivalents	21		183,197		183,197	183,197
Other current assets	23		178,925		178,925	178,925
TOTAL ASSETS		**17,393**	**643,716**	**-**	**661,109**	**661,109**
Financial liabilities measured at fair value						
IRS Derivatives	35	-			-	-
Financial liabilities not measured at fair value						
Long-term loan	25-31			270,000	270,000	270,000
Medium/long term-bonds	25			1,878,424	1,878,424	2,017,138
Financial liabilities for IRS Unwinding	28-35			-	-	-
Other non-current liabilities	29			361	361	361
Short-term loans	30			-	-	-
Trade payables	33			166,737	166,737	166,737
Current financial liabilities	35			20,572	20,572	20,572
Other current liabilities	36			145,724	145,724	145,724
TOTAL LIABILITIES		**-**	**-**	**2,481,819**	**2,481,819**	**2,620,532**

With regard to the financial assets that are not measured at fair value, and the trade payables and other current liabilities, the carrying amount is considered to be a reasonable approximation of the fair value, as it is set forth in the tables above.

To determine the fair value of the bond, the Group has used the market valuations at the end of the reporting period.

Interest rate risk

The Company manages interest rate risk with the goal of achieving a balanced debt structure, reducing the amount of financial debt exposed to changes in interest rates and minimising funding costs over time, thereby limiting volatility in performance. To this end, the Company uses derivative contracts, and specifically interest rate swaps.
Concerning the current debt structure, 1,665 million euro out of a reported 2,090 million euro were not exposed to interest rate risk at 30 June 2017.
There were also 5 “Forward Starting Interest Rate Swap” hedging instruments with a notional amount of 500 million euro.

To properly disclose interest rate risk as required by IFRS 7, the Company's outstanding contracts are shown below.

The forward starting Interest Rate Swap derivative contracts (with a start date in 3 years and expiring after 10 years from the start date) entered into with 5 leading banks allow to hedge a notional amount of 500 million euro.
The Group has tested the effectiveness of the outstanding derivatives and found that they qualify as hedging instruments.

The following table breaks down the derivatives by maturity.

Thousands of euro	Notional		1 year	2 - 5 years	beyond 5 years
	30.06.2017	31.12.2016			
Cash flow hedge derivatives					
Forward Start Interest Rate Swap	500,000	500,000	-	-	500,000
Total	500,000	500,000	0	0	500,000

These contracts were entered into with a notional amount lower than the total to be refinanced and a maturity aligned with that of the underlying financial liability. Therefore, the change in the expected cash flows of these contracts is offset by a corresponding change in the estimated cash flows of the underlying position.

The measurement of the change in the fair value of the hedging derivative and that of the hypothetical derivative is determined by the fluctuation in the interest rate curve occurred since the inception of the instrument (Cumulative Based Test). The present value of the expected future cash flows of the outstanding derivatives is calculated based on the relevant interest rate curves received from a leading financial information provider (Telerate).

The outstanding derivatives can be measured using the inputs (interest rates) that are directly observable in the active interest rate market (Level 2 of the fair value hierarchy as per IFRS 13).

Therefore, the fair value of the financial derivatives generally reflects the estimated amount the Group would pay or receive should it terminate the contracts at the reporting date.
The following table shows the notional amount and fair value of the interest rate derivatives at 30 June 2017.

Thousands of euro	Notional		Fair value		Asset fair value		Liability fair value	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Cash flow hedge derivatives								
Forward Start Interest Rate Swap	500,000	500,000	27,061	17,393	27,061	17,393	-	-
Total	500,000	500,000	27,061	17,393	27,061	17,393	0	0

Lastly, the fair value of the above derivatives, excluding the fluctuation due to the change in creditworthiness, amounted to 31,878 and 22,489 thousand euro, respectively, assuming a 0.10% negative or positive shock in the relevant interest rate curves.

6. Significant events after the reporting period

As for significant events occurred after 30 June 2017, on 31 August 2017 2i Rete Gas S.p.A submitted the bid for Belluno's ATEM tender to the contracting authority.

Direction and coordination

The Group directs and coordinates the subsidiaries Italcogim Trasporto S.r.l., Genia Distribuzione S.p.A., and 2i Rete Gas S.r.l. No company directs or coordinates 2i Rete Gas S.p.A.

Corporate Governance

The main characteristics of the Group's corporate governance are described in the 231/2001 “Organisation, Management and Control Model” as well as the “Code of Ethics”. Both documents are available at the company's website.

XI. Report of the Independent Auditors

2I RETE GAS SPA

REVIEW REPORT ON CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2017

REVIEW REPORT ON CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the board of directors of
2i Rete Gas SpA

Foreword

We have reviewed the accompanying consolidated interim financial statements of 2i Rete Gas SpA and its subsidiaries ("2i Rete Gas Group") as of and for the six months ended 30 June 2017, comprising the statement of financial position, the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in shareholders' equity and related notes. The directors of 2i Rete Gas SpA are responsible for the preparation of the consolidated interim financial statements that give a true and fair view in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements of 2i Rete Gas Group as of and for the six months ended 30 June 2017 do not give a true and fair view of the financial position of the 2i Rete Gas Group as of 30 June 2017 and of the result of its operations and cash flows for the six months then ended in accordance with international accounting standard applicable to interim financial reporting (IAS34) as adopted by the European Union.

Milan, 26 September 2017

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.