



(Translation from the Italian original which remains
the definitive version)

2i Rete Gas Group
(formerly F2i Reti Italia Group)

Consolidated financial statements
as at and for the year ended
31 December 2014
(with report of the auditors thereon)



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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 14 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
2i Rete Gas S.p.A.

- 1 We have audited the consolidated financial statements of the 2i Rete Gas Group (formerly F2i Reti Italia Group) as at and for the year ended 31 December 2014 comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards issued by the Italian Accounting Profession and recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the parent's directors restated some of the corresponding figures included in the prior year consolidated financial statements. We audited such financial statements and issued our report thereon on 13 May 2014. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the consolidated financial statements at 31 December 2014.

- 3 In our opinion, the consolidated financial statements of the 2i Rete Gas Group as at and for the year ended 31 December 2014 comply with the International Financial Reporting Standards endorsed by the European Union. Therefore, they are clearly stated and give a true and fair view of the financial position of the Enel Rete Gas Group as at 31 December 2014, the results of its operations and its cash flows for the year then ended.

- 4 The directors of 2i Rete Gas S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report with the financial statements to which it refers, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report is consistent with the consolidated financial statements of the 2i Rete Gas Group as at and for the year ended 31 December 2014.

Rome, 13 April 2015

KPMG S.p.A.

(signed on the original)

Renato Naschi
Director of Audit

2i Rete Gas

(former F2i Reti Italia)

**Consolidated Financial Statements
31 December 2014**

Notice

The Shareholders' Meetings of 2i Rete Gas S.p.A. and 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.) have approved, respectively, on 7 and 10 November 2014, the merger of 2i Rete Gas S.p.A. into the Parent Company F2i Reti Italia S.r.l., that changed then its name into 2i Rete Gas S.p.A., with effect as from 1 January 2015

This document includes the consolidated financial statements at 31 December 2014 of the 2i Rete Gas Group, prior to the merger.

These documents are subject to approval by the administrative bodies of the incorporating company 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.).

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II Corporate Boards of the Parent Company

Board of Directors

Chairman

Marco Ciabattoni

Directors

Matteo Ambroggio

Carlo Michelini

Giuseppina Falappa

Matias Sebastian Burghardt

Stefano Mion

General Manager

Ing. Gianclaudio Neri

Board of Statutory Auditors

Chairman

Gian Luigi Gola

Regular auditors

Giancarlo Fornaciari

Roberto Poggiolini

Substitute auditors

Ilaria Fornaciari

Maurizio Giuseppe Grosso

Independent Auditors

KPMG S.p.A.



Giarre – Decompression Station

III Directors' Report

1. Foreword

2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.), founded on 14 September 2009, has as main purpose the acquisition and management of shareholdings in 2i Rete Gas S.p.A. (former Enel Rete Gas) as well as the implementation – directly with respect to 2i Rete Gas – of activities that are closely related to the value of this shareholding.

In compliance with what is stated by the extraordinary shareholders' meetings of the companies 2i Rete Gas S.p.A. (former F2i Reti Italia) and 2i Rete Gas S.p.A., the merger, which involved the transformation of 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.) into a joint stock company and the acquisition of the company name "2i Rete Gas S.p.A.", was effective as of 1 January 2015. The shareholding structure, resulting from the aforementioned merger, is the following:

(Amounts in euro)

Shareholder	Shares	%	Share capital in Euro
F2i SGR S.p.A as management company of First Fund	232,500,000	63.90%	2,325,000
F2i SGR S.p.A as management company of Second Fund	29,498,590	8.11%	294,986
Finavias S.à.r.l.	77,500,000	21.30%	775,000
Axa Infrastructure Holding S.à.r.l.	24,135,210	6.63%	241,352
Minorities	217,860	0.06%	2,179
TOTAL	363,851,660	100%	3,638,517

At 31 December 2014, 2i Rete Gas (former F2i Reti Italia) is owned, as of 1 August 2014, as follows: 72.05% by F2i Fondi Italiani per le Infrastrutture Società di Gestione del Risparmio S.p.A. (in abridged form: F2i SGR S.p.A.); 21.31% by Finavias S. à r.l. (Axa Group); and 6.64% by Axa Infrastructure Holding S. à r.l. Until that date, F2i Fondo Italiano per le Infrastrutture, managed by F2i SGR S.p.A., and Finavias S. à r.l., held, respectively, 75% and 25% in F2i Reti Italia.

On 30 September 2009, the acquisition of 80% of the share capital of 2i Rete Gas, previously owned by Enel Distribuzione S.p.A., was completed.

The compensation for the sale of 80% of the share capital of 2i Rete Gas was set at 515.7 million and paid in two instalments, the last being on 28 December 2009, in addition to any interest for payment extensions between the first and second instalment of 1.3 million.

The payment was made by using the buyers' own funds (370.7 million euro) and a vendor loan (Euro 145 million), with an 8.25% annual interest rate, provided to F2i Reti Italia S.r.l by Enel.

The agreement for the purchase of 80% of the share capital of 2i Rete Gas included an adjustment cost of the compensation for "normalization of 2009 cash flows" and with respect to which the parties, in May 2011, reached an agreement that – after having also taken into account the other adjustments agreed between the parties – resulted in a balance of Euro 4.6 million, in favour of the purchaser F2i Reti Italia; this was deducted

from the acquisition cost of the shareholding and, at the time of accounting of the business combination, to goodwill.

On 22 December 2011, the extraordinary shareholders' meeting of 2i Rete Gas, resolved to increase the share capital in one or more tranches up to a maximum total payment of Euro 257.7 million including premium, offered as options to shareholders.

In the month of January 2012, this share capital increase was undersigned, for its own quota, equal to 206.3 million euro, by the controlling shareholder F2i Reti Italia S.r.l.

Following this transaction, the shareholding of F2i Reti Italia S.r.l. in 2i Rete Gas increased to 85.104%.

In the month of November 2013, the Parent Company undersigned – along with F2i Reti Italia 2, a financing agreement with the following banks: IMI (agent bank), Bank of America, BNP Paribas, Credit Agricole, Mediobanca, Unicredit, Banc of America Securitas Limited, for a total overall value of euro 210 million

On 20 December 2013, the pool of banks has provided – to F2i Reti Italia – the sum of Euro 178.9 million, used on the same date for the redemption of the vendor loan that was previously stipulated with Enel SpA. The difference of Euro 31.1 million was disbursed to F2i Reti Italia 2.

The aforementioned financing is guaranteed by a pledge, granted from 2i Rete Gas shareholders (former F2i Reti Italia) in favour of the funding banks and on the 100% of the shares of the company, as well as by a pledge on the bank accounts of the Parent Company.

On 2 January 2015, the financing has been settled in advance.

At the closing time of the loan, 2i Rete Gas S.p.A. (formerly F2i Reti Italia) and Enel Distribuzione S.p.A. signed an agreement, to replace a previous one, signed on 25 September 2009, which includes the payment, on particular terms and conditions, of an earn-out in favour of Enel Distribuzione S.p.A. in case of total or partial disposal of the investment in 2i Rete Gas.

On 25 June 2014, the shareholders of 2i Rete Gas S.p.A. (formerly F2i Reti Italia) expressed their willingness to take over the existing contractual commitments with respect to Enel Distribuzione for the recognition of any earn-out.

As of 1 August 2014, and with a fiscal and accounting effect that is retroactive as of 1 January, the Parent Company 2i Rete Gas (former F2i Reti Italia S.r.l.) incorporated the company F2i Reti Italia 2 S.r.l. The effects of the merger and the consequent change in the controlling quota of the shareholding held in 2i Rete Gas S.p.A. - which increased from 85.104% to 99.9% - were transposed within the separate and consolidated financial statements at 31 December 2014 of 2i Rete Gas (former F2i Reti Italia S.r.l.).

Since its foundation, F2i Reti Italia has delegated to TMF Ferri Minnetti Piredda S.r.l., acting as Corporate Servicer, its corporate, administrative/accounting and fiscal obligations.

2. Market of reference and macroeconomic framework

2i Rete Gas is the second national operator within the sector of natural gas distribution in Italy; it also secondarily operates in the distribution of water services in certain municipalities.

The Italian economy – in the last quarters of 2014 – witnessed a slight recovery in consumption levels, in line with the trend in available income that was sustained by the measures adopted by the government.

Their contribution to economic growth, however, was offset by the decline in investment, held down by a large margin of spare capacity, by the high uncertainty about demand expectations and difficulties in the construction sector that still remain.

Both this sector, on which the development of the gas distribution network and new connections to the network itself depend, and gas consumption in general, on which both invoicing trends and the normal increase in the number of customers depend, remained under severe strain for most of the year.

According to the economic dispatch of the Bank of Italy of January 2015, GDP in 2014 had a further decrease.

The drop in gas gross domestic consumption, already recorded during the first half of the year, was confirmed at the end of 2014. The year-on-year decrease in relative terms stood at 11.6% (61,912 million cubic metres in December 2014 versus 70,069 million cubic metres at the end of the previous year).

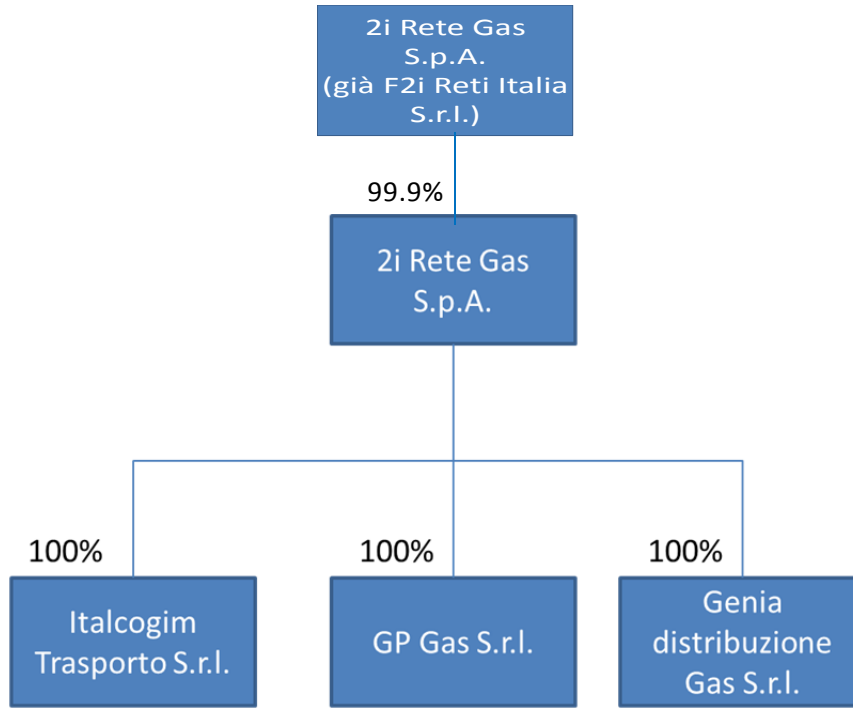
In the year 2014, the 2i Rete Gas Group reported operational data that were essentially in line with 2013; this was primarily due to the combined effect of the acquisition of the company Genia Distribuzione S.r.l. and the delivery of two concessions that were previously assigned to another operator; from an economic perspective, there was a forecasted decrease, with respect to 2013, in terms of both revenues and EBITDA. This was almost entirely due to the redefinition of calculating methods for the Tariff Revenues Cap (VRT) that was introduced in the fourth regulatory period from 1 January 2014 and is in force until 2019.

Despite this impact and the impact of costs associated with the re-financing operation that was completed in the year – which allowed the Group to enter the public stock markets, as discussed below – the Group reported a positive result due to applied efficiencies and the lower level of financial charges, both of which are factors whose positive effects will be visible in future years.

No tender for local areas was called in 2014, despite many municipalities have activated the procedures to request essential data from operators in order to proceed with an assignment by means of an area tender.

3. Group structure and key figures

The following diagram shows the Group's equity investments at 31 December 2014:



The 2014 saw the acquisition, on 26 June 2014, by 2i Rete Gas, of Genia Distribuzione S.r.l. - a company that operates in the distribution of natural gas and manages the concession of San Giuliano Milanese, for a total amount of around 15,000 redelivery points.

During the year, in December an application for closure of the company Italcogim Velino in liquidazione S.r.l. was filed.

With respect to the key figures of the Group, the following outline reports the key operational, as well as economic and financial indicators, of the Group:

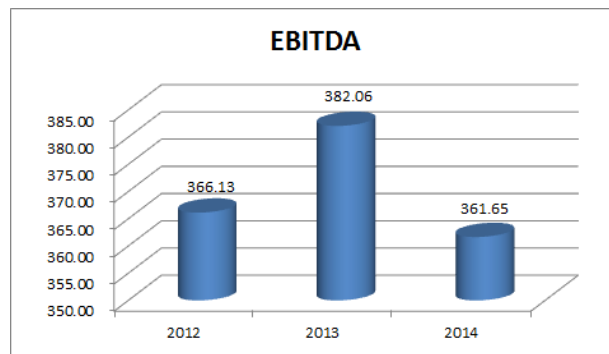
	31.12.2014	31.12.2013	2013-2014
Active concessions	1,940	1,941	(1)
Active redelivery points	3,813,598	3,812,883	715
Gas distributed (natural gas and LPG) in millions of cubic metres	4,978	5,868	(890)
Gross operating profit in millions of Euro:	361.7	382.1	(20)
Net Profit in millions of Euro	12	66	(54)
Distribution networks managed in km:	57,349	57,124	225

	31.12.2014	31.12.2013	2013-2014
Adjusted net financial debt in millions of Euro	1,992.8	1,757.4	235
Net invested capital in millions of Euro	2,633.7	2,509.0	125

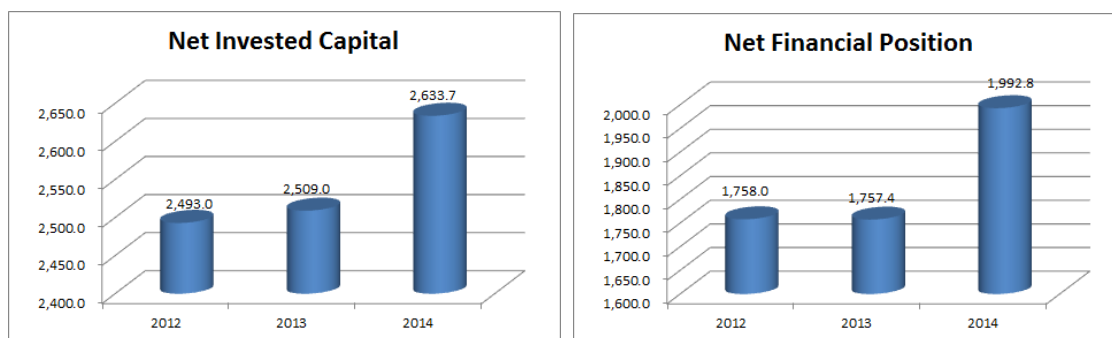
For a better understanding of the development over time of certain fundamental parameters of the Group, a comparison between some of the key economic and financial indicators is graphically shown below.

For an analysis of these trends, reference should be made to section “The Results of the Zi Rete Gas Group (former F2i Reti Italia)”.

Trend in EBITDA from 2012 to 2014:



Trend in Net Invested Capital and Net Financial Position from 2012 to 2014:



4. Significant events during the reporting period

As mentioned in the foreword, as of 1 August 2014 - with a fiscal and accounting effect that is retroactive as of 1 January - the Parent Company 2i Rete Gas (former F2i Reti Italia S.r.l.) incorporated the company F2i Reti Italia 2 S.r.l. The effects of the merger, and the consequent change in the controlling quota of the shareholding held in 2i Rete Gas S.p.A., - which increased from 85.104% to 99.9% - were recognized both in the separate and consolidated financial statements at 31 December 2014 of 2i Rete Gas (former F2i Reti Italia S.r.l.).

On 19 September 2014, as part of the project for restructuring the Group, the Board of Directors of 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.) and of 2i Rete Gas S.p.A. deliberated in favour of the merger of the two companies, with 2i Rete Gas S.p.A. (former F2i Reti Italia) as incorporating company.

On 7 and 10 November 2014, the shareholders' meetings of 2i Rete Gas S.p.A. and 2i Rete Gas S.p.A. (former F2i Reti Italia) approved the merger project deliberating on:

- the transformation of F2i Reti Italia S.r.l. from limited liability company into a joint stock company by changing the company name into 2i Rete Gas S.p.A;
- the issue of 363,633,800 ordinary shares with a nominal value of euro 0.01 each to be assigned at the time of effective merger and in connection with the shares that are currently owned by the shareholders;
- the share capital increase for the merger share exchange from euro 3,636,338.00 to euro 3,638,516.60 and therefore for euro 2,178.60 through the issue – once the merger became effective – of 217,860 shares with a nominal value of euro 0.01 of the acquiring company to be assigned to minority shareholders of the merged company in the ratio of three shares for every owned share;
- the confirmation of the Board of Directors and of the Board of Statutory Auditors, as composed on the date when the merger became effective, and with reference to the

duration of their mandate set until the date of approval of the financial statements at 31 December 2014;

- The approval of the new Articles of Association.

On 16 December 2014, was stipulated the merger deed, effective as of 1 January 2015.

The corporate restructuring will allow activities to be more efficient and will reduce operating costs, thereby generating both operational and managerial advantages, as well as on financial level, optimizing at the same time the shareholding structure. The operation is considered to be overall functional to the development of the industrial plan of 2i Rete Gas and, in particular, will allow it to be more competitive from the perspective of development of the company and the Group, as well as from a growth perspective of the sector, with new assignments of concessions related to the gas distribution sector.

On 10 March 2014, the shareholders' meeting of the direct subsidiary was asked to deliberate upon the change of name of Enel Rete Gas S.p.A., approving the name proposal of the Board of Directors and therefore modifying, with effectiveness as of 19 March 2014, the name into the current "2i Rete Gas S.p.A."

As part of a project that aims to improve financing sources by diversifying debt and lowering costs in support of business activities, the Board of Directors of 2i Rete Gas decided, in 2014, to proceed with the implementation of a project to obtain ratings from two different international rating agencies, Standard and Poors (S&P) and Moody's. The process, which involved a strong commitment of the entire Group and lasted for around four months, was successfully completed at the end of June with the issue of an Issuer Rating Investment Grade.

The initial rating, "BBB negative outlook" for S&P and "Baa2 stable outlook" for Moody's was further improved by S&P to "BBB stable outlook" due to the financial operations that are illustrated below.

Despite the downgrading of Italy by S&P in the month of December 2014, 2i Rete Gas maintained its rating.

With regard to financial operations, and once the rating was obtained, 2i Rete Gas approved and published, on 25 June, within the Stock Exchange of Dublin, its statement for the establishment of a program finalized to issuing bonds (the "EMTN - Euro Medium Term Notes Program") up to a maximum of 3 billion euro.

Following this program, and after an intense promotional activities of senior management which was extended to the primary European capitals through a road show, on 16 July the first two instalments of the fixed rate bond of the company were issued, respectively for

750 million euro at five years and for 600 million euro at ten years, both at a pricing in line with the best market benchmarks. At the same time, the previous financing stipulated in 2011 was closed and the existing derivatives linked to the financing itself were liquidated; new credit lines were obtained from a pool of seven primary banks to support the company operations and at a cost that is in line with the best market benchmarks.

Finally, on 3 December, was issued an additional instalment for a bond of 540 million euro at five years with a fixed rate, while the cost of the bank credit lines granted as of 1 January 2015 were re-negotiated downwards.

The success of this operation allowed the Group to significantly lower the cost of its debt, differentiate its funding sources within the debt capital market, extend the average duration of its debt, fragmenting, at the same time, the risk of refinancing thanks to the various expiry dates of the instalments.

5. The results of the 2i Rete Gas Group (former F2i Reti Italia)

When commenting its economic and financial data, the Group utilizes, in a homogeneous and continuous manner over time, some extensively used indicators, not required or otherwise defined by the IAS/IFRS. In particular, the income statement highlights intermediate results such as EBITDA and EBIT that come from the algebraic sum of the items that precede them. On a financial level, the same considerations are applicable to net invested capital, the net financial position, the adjusted financial position and the net accounting financial debt, whose items are detailed in this paragraph. The definitions of the indicators used by the Group – since they are not deriving from the applicable accounting standards – could potentially not be homogeneous with those adopted by other companies/groups and therefore not be comparable.

Results of operations for the year are shown in the table below, obtained by reclassifying the income statement data in using an operational criterion, in conformity with international practice.

€m	31.12.2014	31.12.2013	Variation
Revenue	838.9	846.3	(7.3)
Transportation and sale of natural gas and LPG	567.8	590.9	(23.1)
Connection fees and ancillary fees	19.7	22.4	(2.6)
Other sales and services	20.6	23.2	(2.6)
Revenue from intangible assets/assets under development	144.6	116.4	28.2
Other revenue	86.2	93.3	(7.1)
Operating costs	(477.3)	(464.2)	(13.1)
Personnel expenses	(116.0)	(112.8)	(3.3)
Raw materials and inventories	(42.7)	(32.0)	(10.8)
Services	(226.6)	(225.2)	(1.4)
Other costs	(65.8)	(76.6)	10.8
Accruals to provisions for risks and charges	(26.1)	(18.5)	(7.6)
Increase in non-IFRIC 12 non-current assets	0.0	0.9	(0.9)
Gross operating profit	361.7	382.1	(20.4)
Amortisation, depreciation and impairment losses	(151.0)	(146.4)	(4.6)
Amortisation, depreciation and impairment losses	(151.0)	(146.4)	(4.6)
Operating profit	210.7	235.7	(25.0)
Net financial expense and net gains on equity investments	(201.1)	(100.4)	(100.7)
Pre-tax profit/(loss)	9.6	135.3	(125.8)
Income taxes	2.5	(69.4)	71.8
Profit/(loss) from continuing operations	12.0	66.0	(53.9)
Profit/(loss) from discontinued operations	-	-	-
Profit/(loss) for the period	12.0	66.0	(53.9)

Revenues, equal to 838.9 million euro, showed a decrease of 7.3 million euro due to the shrinkage in revenues from transport of natural gas and LPG – equal to 567.8 million euro (- 23.1 million euro compared to 2013) – after the introduction of the new calculation method for the Tariff Revenue Cap of the fourth regulatory period and, in particular, the reduction in the rate of return on investments.

The volumes of the year were equal to 4,978 million cubic meters of gas (natural gas as well as LPG), showing a decrease with respect to the previous year.

The accounting method requested by IFRIC 12, implied the registration of revenues for 144.6 million euro under the corresponding item “Revenues for intangible assets/assets under construction”, thereby reporting an increase of 28.2 million euro with respect to the same period of the previous year due to greater investments in electronic systems.

Therefore, net of IFRIC 12, revenues decreased by 35.5 million euro.

It should be underlined that these revenues were totally affected by the costs sustained for the construction of gas distribution networks, and therefore leading to no additional margins.

The connection fees and accessory rights, accounted for 19.7 million euro, dropped by 2.6 million euro compared to the same period of the previous year (22.4 million euro) due to the aforementioned lower management of new customers.

Revenues for other sales and services, for a total amount of 20.6 million euro, reduced with respect to the previous year by 2.6 million euro, due to decreased revenues in the water sector (whose contribution to the income statement is more moderate due to the gradual delivery of residual concessions). Other revenues differing from the above mentioned, primarily include revenues for Energy Efficiency Certificates (EEC) and are overall equal to 86.2 million euro, reporting, with respect to the previous year, a decrease of 7.1 million euro that is essentially attributable to lower revenues for Energy Efficiency Certificates caused by decreased purchases in the year and due to lower capital gains from the sale of assets due to a more limited number of re-delivered concessions for which the reimbursement value, due to the exiting operator, was defined.

Operating costs, equal to 477.3 million euro, reported an increase of 13.1 million euro, with an overall impact on miscellaneous costs from IFRIC 12 of 144.6 million euro for the current year (it was 116.4 million in the previous year).

Therefore net of IFRIC 12, operating costs dropped by 15.1 million euro.

Gross labour costs, 116 million euro, increased by 3.3 million euro compared to the previous year due to contractual wage increases. An important element in the composition of the item is the increase in the quota subject to capitalization (+8.1 million euro).

The cost of raw materials and inventories increased by 10.8 million euro due to greater costs incurred in for investments and subject to the application of IFRIC 12.

Costs for services, at a consolidated level, increased by 1.4 million euro, mostly because of greater charges for consulting services and professional fees for extraordinary operations (+2 million euro) and for costs for investments (+6.3 million euro) related to overall savings on other expense items (-6.9 million euro, due to activities implemented during the year to increase operational efficiency).

Other costs decreased by 10.8 million euro due to the effect of a decrease in costs for Energy Efficiency Certificates (-12.8 million euro). Overall, revenue margins, net of EEC costs, were positive for 7.6 million euro in 2014 compared to the negative value of 2013 (-2.4 million euro).

Allocations to provisions for risks and charges, finally, increased by 7.6 million euro due to risen allocations on tariff risks.

Therefore, the EBITDA is equal to 361.7 million euro, a decrease of 20.4 million euro compared to the previous year (382.1 million euro) due to the decrease in revenues from transport and increased allocations to the provisions for risks mentioned above; these factors were partly mitigated by the restraint of operating costs and the increased margins on EEC.

Depreciation/amortization and write-downs are equal to 151 million euro and mainly refer to the depreciation/amortization of fixed assets.

The value is higher with respect to the previous year (+4.6 million euro) due to the adjustment applied to the useful lives of certain assets which contributed to the increase in the value of depreciation/amortization (+10.4 million euro) in connection with a decreased impact in write-downs and value losses (a decrease of 5.8 million euro).

Therefore, EBIT totalled 210.7 million euro while in 2013 it was 235.7 million euro.

The same observation made to the EBITDA are also applicable to the operating result.

Net financial expenses totalled 201.1 million euro, shows an increase of 100.7 million euro as opposed to the previous year.

This item primarily refers to payable interest on financing; it was heavily affected in the year by the re-financing operation and the issue of bonds, as approved by the Board of Directors of 2i Rete Gas in June 2014 and described more in detail in the commentary.

This decision, involved indeed both the recognition of greater financial charges totalling 18.4 million – due to the revaluation of the cost amortized because of the redemption of the financing – as well as the recognition of financial charges for a total of 95.3 million euro with respect to the fair value of existing IRS derivatives that can no longer be classified as “hedging” instruments according to IAS 39; they were paid off during the year. As a result, as of the second part of 2014 the current financial charge on bonds has been lower.

Pre-tax income, equal to 9.6 million euro, decreased by 125.8 million euro; this was primarily due to the significant impact of financial charges, as described above, and only partially to lower EBITDA.

Income taxes for the year, positively affected the results of the Group by 2.5 million euro (69.4 million euro in 2013) as a consequence of the decreased pre-tax income and the effects of the operation of recognition of goodwill deriving from the merger of the company G6 Rete Gas, in 2013, which allowed the recognition of net fiscal income of 17.6 million euro.

Therefore, net income for the year is positive for 12 million euro.

The table below shows the year 2014 financial position. This was done by reclassifying the data from the statement of financial position in accordance with operational criteria.

€m	31.12.2014	31.12.2013	Variation
	A	B	A-B
Net non-current assets	2,549.9	2,458.3	91.5
Property, plant and equipment	40.8	34.5	6.3
Intangible assets	2,765.3	2,751.9	13.4
Equity investments	3.3	3.3	0.0
Other non-current assets	23.8	6.5	17.2
Other non-current liabilities	(283.3)	(272.1)	(11.2)
Fair value of derivatives	0.0	(65.8)	65.8
Net working capital:	78.8	100.6	(21.7)
Inventories	7.8	6.3	1.5
Trade receivables - third parties and group	213.6	284.3	(70.7)
Net current tax assets/(liabilities)	21.7	(9.3)	31.0
Other current assets	163.1	137.1	26.0
Trade payables - third parties	(184.2)	(147.9)	(36.3)
Other current liabilities	(143.2)	(170.0)	26.8
Gross invested capital	2,628.7	2,558.9	69.8
Provisions	(5.0)	49.9	(54.9)
Post-employment benefits and other employee b	39.1	37.2	1.9
Provisions for risks and charges	69.2	61.6	7.6
Net deferred taxes	(113.2)	(48.9)	(64.4)
Net invested capital	2,633.7	2,509.0	124.7
Liabilities held for sale	0.0	0.0	0.0
Equity	640.9	721.5	(80.6)
Outstanding liability for unwinding of IRSs	0.0	30.2	(30.2)
Adjusted net financial debt	1,992.8	1,757.4	235.5

Net fixed assets, mainly consisting of intangible assets for gas distribution concessions, totalled 2,549.9 million euro, increased by 91.5 million euro compared to 31 December 2013, as noted below.

The registered increase of “Intangible assets” of 13.4 million euro was the net result of new investments of 165.6 million euro, changes in the scope of consolidation of 6 million euro in addition to decreases of 11 million euro, impairment losses of 0.4 million euro, and amortisation of the year for 146.8 million euro.

The increase in the item “Property, plant and equipment” of 6.3 million euro was due to new investments (9.9 million euro), disposals (0.2 million euro) and depreciation (3.4 million euro).

Shareholdings did not change at a consolidated level and are equal to 3.3 million euro while the increase in “other non-current assets” and “other non-current liabilities”, respectively equal to 17.2 million euro and 11.2 million euro, is ascribable, in the first case, to the long-term re-classification of certain receivables due from municipalities which are currently subject to arbitration and, in the second case, to increased medium –long term deferrals for connection fees, property subdivision, plant transfers and network extensions.

The fair value of derivatives was cancelled after the decision of re-financing during the year was made, with simultaneous closing and payment of derivatives; as a result, the fair value was re-classified within the income statement already in the month of June.

For this reason, the related market value was completely reimbursed to counterparty banks, resulting in a negative effect on the net financial position of the year.

Net working capital, equal to 78.8 million euro, reported a decrease of 21.7 million euro with respect to the previous year; this was primarily due to a decrease in trade receivables due to the specific weather conditions of the year in addition to an increase in trade payables due to significant investments made throughout the year on electronic meters.

As a result of the combined effect of changes in net fixed assets and net working capital, the gross invested capital increased from 2,558.9 million euro in the previous year to 2,628.7 million euro at 31 December 2014, reporting an increase of 69.8 million euro.

Other provisions, with an overall negative balance (-5 million euro), decreased by 54.9 million euro; this was primarily due to the changes in the provisions for net deferred taxes totalling 64.4 million euro which were significantly affected by the recognition of the goodwill resulting from the merger of G6 Rete Gas, as well as the partial lack of deduction of financial charges generated from the closing of derivatives.

Therefore, net invested capital increased by 124.7 million euro from 2,509 million euro (in the previous year) to 2,633.7 million euro this year.

Equity fell from 721.5 million euro (in 2013) to 640.9 million euro at 31 December 2014, due to the net impact of the following changes:

- a decrease of 89 million euro following the payment of dividends;
- an increase of 0.5 million euro due to share capital increase;
- an increase of 86.1 million euro following the merger of F2i Reti Italia 2 into F2i Reti Italia and the consequent change in the controlling quota of the shareholding held by F2i Reti Italia in 2i Rete Gas;
- a decrease of 131 million euro attributable to minority interests;
- an increase following the cancellation of the negative reserve for the valuation of derivatives and totalling 43.4 million euro (37 million euro along with the amount of 6.4 million euro due to the effect of the change in the controlling quota);
- a decrease of 2.6 million euro due to the impact on employee termination indemnities recognized in the Statement of Comprehensive Income following the application of the revised IAS 19.
- an increase of 12 million euro following recognition of the 2014 result.

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

Notes				
€m		31.12.2014	31.12.2013	Variation
Non-current bank loans and borrowings	25	(214.1)	(1,930.3)	1,716.1
Bonds	25	(1,890.0)	0.0	(1,890.0)
Cash and cash equivalents with third parties	21	108.5	147.1	(38.6)
Current loan assets	19	1.0	5.7	(4.7)
Other current financial assets	20	0.0	0.0	0.0
Current bank loans and borrowings	30	(7.8)	0.0	(7.8)
Current portion of non-current loans and borrowings	31	0.0	(2.1)	2.1
Adjustment to liability for borrowing costs (IAS 39)	31	0.0	2.1	(2.1)
Non-current financial assets	15	0.7	0.7	0.0
Non-current financial assets financing costs	15	7.3	0.0	7.3
Non-current financial liabilities	28	0.0	0.0	0.0
Current financial liabilities	35	(15.6)	(0.4)	(15.2)
Adjustment to liability for borrowing costs (IAS 39)	25	20.3	28.9	(8.6)
Commissions on loans and borrowings	25	(3.1)	(9.1)	6.0
Adjusted net financial debt		(1,992.8)	(1,757.4)	(235.5)
Fair value gains on derivatives	20			
Fair value losses on derivatives	35	0.0	(65.792)	65.8
Outstanding liability for unwinding of IRSs, current portion	35	0.0	(6.150)	6.2
Outstanding liability for unwinding of IRSs, non-current portion	28	0.0	(24.0)	24.0
Net financial debt		(1,992.8)	(1,853.3)	(139.5)

The net financial position increased from 1,757.4 million euro in 2013 to 1,992.8 million euro at 31 December 2014.

It should be noted that the net financial debt, in addition to the payable for the unwinding of previous derivatives, at 31 December 2013, included the fair value of existing derivatives

and the unwinding payable. At 31 December 2014, due to the closing of the existing derivatives, the net accounting financial debt was equal to the net financial position.

6. Regulatory and tariff framework

6.1 Regulation

With regard to the scope of activities of Zi Rete Gas, the interventions of the Regulatory Authority for Electricity, Gas and Water (AEEGSI, "Autorità per l'energia elettrica, il gas ed il sistema idrico") during the course of 2014 were conducted in accordance with the lines/objectives that were already outlined in 2013.

In the period in question, the Authority issued numerous provisions of interest to the Group concerning the gas sector or the water services one, including, in particular, (concerning the distribution of gas) different resolutions on tariffs as well as the service quality and security of plants, last resort services (default service), completion of the regulations for tenders assigning gas distribution services, energy efficiency, controls with respect to operators and those pertaining to data exchanges between operators.

With regard to tariffs for the gas distribution and metering service, the Authority – following the provisions approved at the end of 2013 along with those on service quality for the new 2014-2019 regulatory period – completed (Resolution 367/2014/R/gas) the formulation of certain specific aspects pertaining to territorial management and which will be initiated after the implementation of the related tenders (such as the definition of the methods to recognize within the tariff the difference between the value to pay to the outgoing operator in order to acquire the plants, the so called realisable value of the concessions (VIR), and the local net tariff assets, net of public and private contributions - the Regulated Asset Based (RAB)). Additional information on tariffs are reported in the next paragraph.

At the beginning of the year, the Authority approved, effective as of 2013 (Resolution 14/2014/R/efr), new methods to define the tariff contribution to cover costs faced by distributors subject to obligations pertaining to Energy Efficiency Certificates, establishing a value of the recognized contribution which reflects the market value of the EEC. The new methods for defining the contribution provide indeed the establishment of a preventive contribution in June for each required year (aimed to provide preliminary price specifications) and of a definitive tariff contribution within 30 June of the next year; this is based on the average market value of the EEC that is recorded in the required year. At June 2014, the value of the definitive tariff contribution for 2013 was equal to 110.27 €/EEC (given a preventive contribution of 96.43 €/EEC) while the preventive contribution for 2014 was set at 110.39 €/EEC.

As regards installation and operational set-up of the meters qualified for remote reading/management in accordance with Resolution 631/2013/R/gas (which replaced, at the end of 2013, the previous ARG/gas 155/08), at the end of the year the Authority integrated (Resolution 651/2014/R/gas) the provisions pertaining to class-G4 and G6 smart meters installation and operational set-up obligations. It also introduced the possibility to keep on using traditional meters in case of replacement or new connections in locations where the replacement plan has not yet been started, installing meanwhile an equal number of smart meter gases in locations where the plan is already started, in addition to those already in use for the attainment of the objectives set by the Authority.

The Authority then issued provisions for supplementing and amending the provisions related to the so-called “default service” within the distribution networks. Through the “default service” reform in 2013 (Resolution 241/2013/R/gas and its subsequent amendments and supplements), the responsibility related to the supply of gas was assigned to an entity which differ from the distribution company (one or more sales companies identified through a public procedure). The responsibilities associated with the closing of the redelivery points related to the distribution company were subject to new significant penalties in case of failed of the interruption of the supply, even when not held responsible for that.

Through the provisions adopted in 2014, the distribution companies’ obligations in relation to operations for closing redelivery points due to delays as well as to legal initiatives for the forced execution of the supply interruption have been made more stringent (Resolution 84/2014/R/gas). Then, at the end of May (Resolution 246/2014/R/gas) the gas value, to consider as of 1 June 2014, was defined to define penalties which the distribution company is required to pay to CCSE in case of failure to interrupt power supply to the redelivery points within the pre-set deadlines and according to the days in which the service is under default beyond these deadlines, and until exiting the service.

Following these new provisions, 2i Rete Gas integrated, with added arguments, the appeal previously filed in 2013 with the Regional Administrative Court (TAR) of Lombardy – Milan section against the provisions which introduced penalties for distribution companies in case of failed interruption of the supply (even when this is not responsibility of the distribution company), appeal for which the related ruling from TAR is being awaited.

In July, were also established the economic conditions for remuneration of the default service for distribution companies that were assigned this service in the February-May 2013 period and which still had not managed to issue invoices to final customers.

In 2014, the Authority integrated (Resolution 40/2014/R/gas) the regulations for audits of gas utility plants which were also extended, as of 1 July 2014, to modified or transformed utility plants, thereby updating, at the same time, the compensation for distribution companies covering costs for auditing activities (with an increase of around 20% with respect to the previously applied compensation set in 2004).

The AAEGSI has also introduced, as of 2014, new provisions in matters of accounting unbundling, updating – among other items – certain definitions and contents of the activities as well as related sectors for distribution and metering of natural gas; it also defined the time periods for the extension, even to the gas sector, of the so-called

Integrated IT System (IIS) in order to facilitate flows of information between distributors and sellers of energy within the different processes they manage.

The Authority also adopted some provisions implementing rules pertaining to the assignment of the natural gas distribution service by local area and relating to:

- the procedure related to the acquisition and analysis of tender documentation which the contracting entities must send to the Authority as well as the verification of differences between VIR and RAB which exceed 10% and for which the Authority has specifically created an interdepartmental work group;
- Reimbursing modalities for exiting operators, plus interest, for amounts related to lump sum compensation to cover tender costs relating to the assignment of the natural gas distribution service, provided in advance to the contracting entity.

With regard to primary regulations, relating to the assignment of the gas distribution service through tenders for local areas, Legislative Decree 145/13 "Destination Italy", converted into Law 9/14, at the beginning of the year were established:

- calculation of the VIR with the method set in the guidelines issued by the Ministry of Economic Development (MiSE) in case the assigned contracts do not provide disclosure on how to determine the repayment value;
- deduction, in all cases, of private contributions from the VIR;
- verification, by AAEGSI, of the VIR defined by local granting entities in all those cases in which it is 10% greater than the RAB, while the contracting entity will have to take into account the observations of the Authority for the purposes of determining the repayment value to include in the call for tender;
- the advance disbursement in favour of the contracting entity of the amount corresponding to the lump sum covering tender costs and the repayment of this amount, plus interest, from the incoming assignee at the time of completed awarding of the service, with modalities defined by AAEGSI.

The MiSE, through Ministerial Decree of 22 May 2014, approved the "Guidelines of criteria and application modalities for calculating the repayment value of plants for natural gas distribution". Finally, in December, the Council of State ("Consiglio di Stato") approved the outline to update Ministerial Decree 226/11 in relation to the Regulations for tender criteria and for the offer evaluation to assign the natural gas distribution service. This update was made necessary due to the new provisions introduced by Legislative Decree 145/13 "Destination Italy" (converted into Law 9/14) and in order to coordinate the provisions of the Regulations with those provided for by the Guidelines pursuant to Ministerial Decree of 22 May 2014. Publication of the update is expected in the first months of 2015.

At the end of the year, the AEEGSI has started a legal proceedings (Resolution 597/2014/R/com) to review the methods to define the weighted average cost of capital (WACC) for all infrastructural services regulated by the electricity and gas sectors in order to gradually unify the parameters used to determine it, with the exception for those specific to the sector, in addition to adopting calculation and updating mechanisms which guarantee consistency of the WACC with economic trends (in particular, the rate for risk- and inflation-free assets used in the calculation). The procedure should be coordinated with the one to review the regulation of the services of the electrical sector and should be completed by 2015 by applying new modalities to determine and update the WACC by 2016.

For what concerns the new competencies in matters of water services, the Authority, in 2014, adopted provisions pertaining also to the regulation of tariffs and the quality of the integrated water service.

During the 2014, the AEEGSI adopted (Resolution 211/2014/A), as an independent authority, guidelines to implement accountability measures in order to report its activities to stakeholders, inform them, collecting opinions and proposals and involving them, when possible, in decision making processes within a regulatory framework inspired by principles of transparency and impartiality of administrative actions.

In 2014, besides the consultations regarding provisions that were subsequently issued, the Authority also undertook consultations aimed at adopting subsequent provisions :

- regulation of the metering activity, availability of data and switching time schedules;
- Technical and economic conditions for supplying connection services for biomethane plants to natural gas networks.

After numerous consultations by the Authority in relation to matters of interest for gas distribution and affecting the companies of the Group, with the publication of documents in relation to which observations and proposals were required, the latter have always presented their own documents in response to all topics considered to be significant.

6.1 Other significant events

- By means of Resolution 497/2014/R/gas of 16 October 2014, bonuses and penalties were assigned, for 2012, in relation to security recoveries of the natural gas distribution service for 160 companies distributing natural gas. 2i Rete Gas was the first company to distribute gas as bonuses with a value of around 8.4 million euro versus a total of 32.1 million euro.
- As part of the program of five inspection audits for the security recovery of the service for 2013 (established by Resolution 238/2014/E/gas of 29 May 2014 with respect to an equivalent number of companies distributing natural gas and among those which receive the highest incentives or which were still not subject to audits), the AEEGSI implemented,

on 29-30 July, an inspection audit on the data related to security and to the managed plants in order to apply the bonus/penalty economic mechanisms for the security levels attained in 2013.

The inspectors did not find irregularities or report disputes neither during the audit nor afterwards; as a result, the incentives for 2013 should be calculated and disbursed without any reduction (which could, in other cases, be applied if during the inspections non-compliances were detected). The approval and supply of the 2013 incentives are expected during the course of 2015.

- On 10 December 2014, 2i Rete Gas received the results of the outcome of the inspection audit implemented by the Authority in June 2011 in relation to the correct tariff provisions application for the 2009-2012 regulation period. This notice highlights the fact that the accounting documentation produced in support of assets owned by local authorities for some locations could potentially not comply with regulatory provisions; the potential application of automatic tariffs was already forecasted for these locations. Given that the communication does not specify, in detail, the reasons for the alleged non-compliance of the documentation produced for some locations, clarifications and in-depth analyses were requested and have yet to be received. The company has proceeded anyway with allocating provisions for risks to cover any resulting liabilities.

6.2 Provisions subsequent to 31 December 2014

After 31 December 2014 (and up to 13 February 2015), the AEEGSI, on 15 January 2015, presented a strategic outline of its operations for the four year period 2015-2018 (Resolution 3/2015/A) aimed at identifying general policies and principles for regulations in electricity, gas and water sectors along with certain specifications of the growth forecasts for various activities.

On 12 February 2015, was published the Resolution 46/2015/R/gas which approves directives for connecting biomethane production plants to natural gas networks.

By means of the sentence filed on 2 March 2015, the Regional Administrative Court of Lombardy – Milan section, rejected the appeal filed by 2i Rete Gas in 2013 which was subsequently integrated with the reasons added in 2014 against provisions related to the so-called “default service” (Resolution 241/2013/R/gas and its subsequent amendments and supplements) which introduced supply interruption obligations for distribution companies, in relation to default utilities, as well as penalties in case of a failure to interrupt the supply, even in case of certified impossibility. The chance to appeal against this decision before the Council of State (Consiglio di Stato) must now be evaluated.

6.3 Tariff framework

The consultation process of new rules for to determine tariffs found its conclusion with Resolution 367/2014/R/gas. The new principles to apply to the tariffs for distribution and

metering in the fourth regulatory period (2014-2019) – which goes from four to six years for the first time, both for current municipal and extra municipal operations as well as new operations by concession sector – provide for a three-year review of the x-factor and a two-year review of the WACC, the latter set at 6.9% for distribution activities and 7.2% for metering activities in the 2014-2015 period.

On the one hand, additional changes include the annual reporting of investments for the purposes of determining distribution and metering invested capital while also calculating the investments of the previous year (t-1) giving an updated representation of the value of the so-called RAB with respect to the previous regulation (t-2). On the other hand, the centralized capital costs are determined based on a single national compensation parameter for all operators. The new regulations have also introduced some modifications to the treatment of stocks of contributions (2011). Operators also retain the right – by location (Resolution 455/2014/R/gas) – not to decrease contributions and to calculate amortization gross of the contributions, in continuity with the third regulatory period, or to opt for a gradual decrease of contributions and calculate amortization net of the latter (the option selected by the Group). The contributions received as of 2012 were used instead to deduct the value of fixed assets, to determine RAB and calculate amortization quotas.

In addition, determination of operating costs was subject to changes too. In particular, the initial levels of operational costs were established based on the weighting of the average effective costs reported in the unbundling statements of operators and the costs recognized for tariff purposes in the previous regulatory period, both recorded referring to the size of the company and the service density.

The tariffs of reference for the natural gas distribution and metering services in 2014 were “provisionally” approved at the end of March 2014 (Resolution 132/2014/R/gas) given that the reporting of the final investments (t-1) was conducted in November 2014.

In the last days of 2014, the Authority determined the mandatory tariffs for the natural gas distribution and metering services as well as the tariff options for different gases for the year 2015. By means of the same resolution, the maximum amount of recognition - within the tariff – of the greater charges coming from the concession fees to pay to municipalities in accordance with Article 46 of Leg. Decree 159/07 (634/2014/R/gas) was approved. In addition, the Authority re-determines the tariffs of some operators for the years 2009-2013 after adjustment requests for the tariffs of certain locations starting in 2013 and of 2014 tariffs related to gases other than natural gas.

By means of Resolution 90/2015/R/GAS, the Authority determined the definitive tariffs of reference for the gas distribution and metering services for 2014 based on that provided for by Article 3, paragraph 2, letter b) of the RTDG, calculated based on the final financial data for 2013.

7. Development work and management of concessions

The competitive market for tenders to assign the methane gas distribution service during 2014 highlighted two tenders for each concession, just as the number of tenders per

individual concession in the past three years was limited due to Leg. Decree no. 93 of 1 June 2011 (the so-called “Third Energy Package”) that blocked the initiation of new tenders other than for minimum local areas (ATEM).

Despite intense activity of the Ministry of Economic Development and the AEEGSI, the regulatory framework is not completed yet; as a result, no tender for ATEM have been currently initiated.

Because of that, and for the purposes to allow the contracting entities to complete the preparatory activities for initiating new tenders, the law proposal for converting Leg. Decree no. 91 of 24 June 2014 (the so-called “Competitiveness Decree”) was approved; it provides an additional extension to the deadlines for initiating the procurement procedures holding the initial tenders forecasted in the first half of 2015.

7.1 Awarded concessions

With regard to the tender aimed to assign the natural gas distribution service in the municipalities of Trissino, Brogliano and Cornedo Vicentino (VI) (around 8,700 final users), on 14 March 2014, 2i Rete Gas S.p.A. received a copy of the decision of the Procedure Manager that declares the awarding of the tender received in 2013 to be ineffective. 2i Rete Gas S.p.A. will, anyway, continue with the operations, according to Art. 14, paragraph 7 of Leg. Decree no. 164/00.

With regard to the tender aimed to assign the natural gas distribution service in the municipalities of Como and San Fermo della Battaglia (around 44,600 final users), on 4 November 2014, the Council of State (“Consiglio di Stato”) rejected the appeal of ACSM-AGAM Reti Gas S.p.A., thereby confirming the final awarding to 2i Rete Gas S.p.A. which had already been received in 2013.

On 13 November 2014, 2i Rete Gas S.p.A. received from the municipality of Rozzano (around 19,000 final users) a notice communicating the positive outcome of the assessment of the requirements declared in the tender, as provided for in a sentence of the Council of State (“Consiglio di Stato”) which ruled the contract stipulated with GasPiù Distribuzione S.r.l to be ineffective, thereby also sanctioning the right of 2i Rete Gas to be assigned the natural gas distribution service after a verification of possession of pre-requisites.

In the case of the concession for the municipality of Castronno (around 2,200 final users), previously re-awarded by means of a tender in 2011, the pledge of the new contract has not been implemented yet.

7.2 Lost concessions

With regard to the tender aimed to assign the natural gas distribution service called by the municipality of Pieve Vergonte (VB) – in association with the municipalities of Anzola d’Ossola, Ornavasso, Piedimulera, Premosello Chiovenda and Vogogna (overall around 5,800 final users), Molteni S.p.A. has not agreed yet to the related service contract despite

the final awarding occurred in 2011. 2i Rete Gas therefore continues its management, according to Article 14, paragraph 7, of Leg. Decree no. 164/00.

With regard to the tender aimed to assign the natural gas distribution service announced by the municipality of Manfredonia (FG) (around 16,000 final users), on 24 June 2014 the TAR of Puglia, after the appeal of 2i Rete Gas against exclusion from the tender and the appeal filed by Gas Natural SpA (which ranked second following the exclusion of our company) ordered, by means of the AEEGSI, a technical audit whose positive outcome was communicated on 5 February 2015. The hearing on the matter was set at 18 June 2015.

With regard to the tender aimed to assign the natural gas distribution service announced by the municipality of Verbania (VB) (around 18,000 final users), the Council of State ("Consiglio di Stato") rejected the appeal of 2i Rete Gas SpA on 22 January 2015, thereby confirming the final awarding to Molteni SpA.

As for the tenders called by municipalities where the Company already managed the gas distribution service:

- on 4 July 2014, despite the fact that the company also ascertained, in the administrative court, that a re-negotiation was implemented for the service contract relating to the tender between the municipality of Caronno Varesino (VA) (around 2,100 final users) and the awarded entity, 2i Rete Gas was obliged, because of the trade union order, to a forced delivery of the plants to Pomilia Gas S.c.a.r.l., for a simultaneous start-up of the new operations;
- on 10 November 2014, 2i Rete Gas S.p.A. undersigned the minutes for the delivery of plants and management of the gas distribution service for the municipality of Paderno Dugnano (MI) (around 21,700 final users), effective as of 11 November 2014, and whose operations will be managed by Italgas S.p.A.

7.3 Participation in non- "ATEM" tenders

In 2014, in light of what stated above and upon explicit derogation from the Ministry of Economic Development, two new tenders only were initiated for assignment of the methane gas distribution service in the municipality of Terento (BZ), still in need of methane services, and in the municipality of Ionadi (VV), which requires such services in just one district; 2i Rete Gas S.p.A. did not participate.

It also should be noted that, in the reporting period, the tender procedure relating to the service in the municipality of Spinete (CB) (around 200 final users), was renewed after the previous one was cancelled; it was declared illegitimate by the TAR of Molise by its sentence of 25 July 2014, after the appeal presented by 2i Rete Gas S.p.A.

7.4 Activities within "ATEM" tenders

In light of the foreseeable publication of calls for tenders for ATEM in the first half of 2015, the Group has been involved, in 2014, in the preparation and transmission of all requested documentation to municipality and/or contracting entities in order for the latter to draft and subsequently publish the call for tenders.

This preliminary information must be definitively updated at the time of the tender as required by Article 4 (e.g. the state of the plant, the number of users, distributed volumes, tariff value (RAB) and information on employees) in addition to the repayment that due to the outgoing operator pursuant to Article 5 of Ministerial Decree 226/2011. The repayment is computed in accordance with the criterion pursuant the most recent legal provisions in force at the time of delivery as well as the amounts available on that date.

8. Support for gas transport activities

In the first months of 2014, the project for the creation of the department “Network Sales Services” was started in order to internalize the sales activities pertaining to gas distribution, previously supplied by Enel Distribuzione through a service contract.

This internalization process, which was successfully completed on 30 September 2014, three months in advance with respect to the schedule, provided for a detailed analysis of the processes and activities of reference as well as the identification of resources and the timing for implementation of the internalization while taking advantage, where possible, of opportunities for making current processes more efficient.

At a later stage, through support and through the handing over of technical and functional know-how, the operational start-up of the facility was finalized, giving guarantee of the continuity of the business activities that are now managed in autonomy.

Within the scope of actions for greater efficiency, the other commercial activities that were previously managed by third-party entities are now insourced.

In particular, reference is made to metering as well as commercial activities related to water services.

8.1 Commercial quality

The commercial quality level is measured by a general corporate index, that shows the percentage of services not carried out within the standard time set by the AEEGSI, in reference to connections, reconnections, disconnections, quotes and execution of both simple and complex work.

The general index of “non-compliant” services was – for the purposes of service quality parameters – equal to 0.18% in 2014.

More in detail, the final values of the specific indicators for “non-compliant” services are as follows:

• Connections	0.07%
• Execution of simple work	0.68%
• Commercial budget	0.29%
• Reconnections for defaulting customers	0.21%
• Disconnections at customer request	0.08%
• Execution of more complex work	0.79%

The monitoring of processes regulated by Resolution 574/13 also highlights the fact that the “Respect of Appointments” indicator shows a value of 0.04% (134 non-compliant) out of a total of 345,712 services supplied.

8.2 Management of complaints

The primary themes for which informational requests and/or complaints were received from final customers are the following:

- Verification of metering and consumption data reconstruction
- Specifications in relation to the ownership of the Redelivery Point
- Clarifications pertaining to the execution of accessory services, with particular reference to activations as per AEEGSI Resolution 40/14.

During the year 2014, the Group managed 2,313 written complaints and informational requests in addition to 26 requests for information derived from the AEEGSI received through companies authorized to sell gas.

Replies were prepared to 874 requests from the AEEGSI-Consumers Affairs Department for complaints, which the latter had received directly. This service has been created in 2009 to assess requests and notifications made by end clients.

Finally, 3,712 requests for technical data – acquired by readings from the measurement unit (c.d.M01) – and 5,769 requests for other technical data (c.d.M02) were managed.

8.3 Invoicing of gas transport

During the year 2014, the invoicing of gas transport and accessory services – due to extraordinary merger and integration operations in 2013 – was implemented within a unified IT platform and in compliance with planned deadlines.

In particular, in the second half of the year, the operation for re-alignment of invoicing was completed for some Redelivery Points; this was necessary after the migration on to the integrated application map of the customer database of the companies subject to merger (scope of former 2IGas and G6 Rete Gas).

These activities involved around 180,000 Redelivery Points for an amount equal to around 12.9 million euro.

After the approval of Resolution 250/2014/R/gas, the deadline for delivery to National/Regional Transporters of the data relating to the adjustment session for 2013 was deferred to 28 February 2015; it was originally scheduled for 31 July 2014.

In addition to definition of the IT tool dedicated to the management of the adjustment session and the analysis of data produced during the course of 2014, the activities for redefining the gas balances for the 2013 calendar year, were completed in compliance with Resolution 534/2013/R/gas "Methods and time schedules for re-determining the balancing sessions conducted in 2013".

The activities for determining the monthly balances for the entire January – December period in 2014 were regularly completed.

8.4 Gas network commercial field

In 2014, the commercial services management required by the sales companies was almost exclusively implemented through the Four portal, a tool that is now used by most customer sales companies- both in its web format and as an app-to-app option.

The processes to activate last resort services, last resort supplies (FUI), and default services (Default) increased significantly in the same period; this was primarily due to the late payments of final customers with respect to the related sales companies.

The latter, in fact, can cancel the supply contract with the final customer in case of failed closure, or suspension, of the supply due to technical and/or economic non-feasibility, thereby availing itself of the right to suspend its ownership rights and transferring these to a competent last resort service.

On 31 December 2014, the active redelivery points for FUI and Default were respectively 13,617 and 3,947.

During the year 2014, the Group set up a significant task force in order to comply with currently effective regulations pertaining to interruption of supply to Redelivery Points under Default Distribution. The efficacy of these activities was, on average, good, also due to the use of numerous legal actions.

At 31 December 2014, 1,481 procedures were prepared for the initiation of legal actions and the supply was suspended for 2,027 Redelivery Points.

As of 1 April, the process aimed to the switch to AEEGSI Resolution 9/2013 was adjusted, creating new informational exchanges with the sales companies in case of absence or non-consistency of fiscal data and revocation of the service due to delayed payment.

In 2014, requests for supplier changes were, on average, 35,000 per month out of an annual total of 400,000 switching requests.

In the last quarter of 2014, the activities for accreditation and uploading of data relating to Redelivery Points were started. This data is updated on a monthly basis within the SII portal managed by the Sole Buyer, in compliance with AEEGSI Resolution 296/2014/R/com.

8.5 Metering activities

In 2014, with the objective of standardizing the entire accounting process after the merger and integration of the three different operating companies, it was necessary to call a national tender for recording cycle readings. The major technological innovations introduced by the tender include photo-readings with simultaneous availability of the digital optical support within a dedicated portal and the recording of satellite coordinates. The innovations will allow the entire process of operational management of batches to be more efficient and reduce operations of internal personnel.

The entry into force of AEEGSI Resolution 574/2013 introduces, in matters of regulation of the quality of natural gas distribution services, the performance of the metering service for the purposes of monitoring and comparative publication, with the following objectives:

- Improvement of the success rate of the attempted metering collection;
- Improvement in compliance with obligations to make metering data available to sales retailers;
- An increase in the success rate of attempts to collect the switch metering.

Fulfilment of regulatory obligations has given the opportunity to prepare appropriate indicators and monitoring instruments in order to initiate potential corrective actions.

8.6 Invoicing of distribution default service

In 2014, after the publication of Resolution 315/2014/R/GAS, which defined, among others, the economic conditions for applying the service with respect to final customers, the Default Distribution Service invoicing process was finalized for the period between 1 February and 31 May 2013. During this transitory period of the regulations, the distribution company was responsible for guaranteeing the balancing of the distribution network with respect to gas collections that were directly implemented by the final customer and without a supplier.

The regulatory framework then changed, as of 1 June 2013, with the introduction of the public procedures for assigning the service.

The supply of the default distribution service concerned 67 customers for a gas volume equal to 4,528 million cubic meters.



San Giovanni la Punta – Laying of the gas network

9. Plant construction, environment and safety

9.1 Gas distribution plant

During 2014, the Group laid approximately 200 km of pipelines, of which around 47% with high-medium pressure and 53% with low pressure.

In general, the pipelines laid out during the year were around 95% constructed with High Density Polyethylene (HDP). This is, technologically, the most recent material; it is widespread among the main international gas operators and has lower operational and installation costs, compared to the more traditional plated 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 coming from the agreements with the competent authorities.

The overall size of the network managed by the Group was, as a result, around 57,350 km at 31 December 2014, serving more than 1,900 municipalities. In addition, 1,125 primary substations are active, which – prior to the managed distribution networks – reduce, meter and odorize the gas derived from the national transport networks.

With respect to the size of the previous year, no significant changes were recorded due to the transfer of the municipalities of Caronno Varesino and Paderno Dugnano for a total of around 200 km of network.

9.2 Design of networks and plants

The design activity, implemented in light of the upcoming start-up of the applicable tenders (ATEM), as per Ministerial Decree 226, is aimed to plan and prepare in advance for the forecasted tenders following the issue and progressive adoption of the previously mentioned Decree 226.

During the year, the activities aimed to recovery of additional detailed technical elements – started in 2013 – continued, in addition to those activities aimed to verify the elements already inserted within company systems for the purposes of drafting improved technical proposals to present during the tender phases and which are necessary in order to automatize, to the greatest extent possible, the related design activities.

Based on an intense workload and their assumed simultaneous implementation, two external planning facilities have been identified for the support and integration of internal resources and for future activities pertaining to drafting tenders for local areas.

9.3 Service continuity and safety

Moreover, in 2014, the Group performed checks on the data concerning service continuity and safety processes, as set out in Resolution 574/13 issued by the relevant Authority. The main monitored parameters 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, odourisation of gas, percentage of network with cathodic protection).

The reporting related to technical standards for 2014 will be implemented by March 2015 by extracting the data that was directly registered during the year within the company IT systems through the data aggregation and extraction system (SAP-BW); audits on the accuracy and suitability of the reported data will also be implemented.

In general, in continuity with what implemented in previous years, qualitatively elevated services are well grounded with respect to the minimum required ones, even in relation to those of other competitors.

From the perspective of a constant attention to plant security and final customers, preventive research campaigns for dispersions were implemented: with regard to the planned inspection of the distribution network, these were equal to more than 70% of the high and medium pressure pipes and more than 60% of the low-pressure pipes.

With regard to audits of the degree of odorization of distributed gas implemented in the field in order to verify, in a capillary manner, the actual degree of odorization of the distributed gas, data that was higher than the required minimums were recorded (around 14,000 gas chromatography controls) with respect to the minimum value required by AEEG (around 3,300 controls), a sign of the focus that is given to the security of the service.

9.4 Adoption of the new call centre for emergency calls

On 24 June, in accordance with the Group policy of gradual adoption of autonomous systems with respect to those already in use and derived from the previous Enel organization, the new IT system for registration and management of emergency calls was activated.

The personnel of the new supplier was adequately trained in the weeks immediately before the start-up of the service in order to guarantee maximum quality and continuity of the service.

The monitoring of the services – implemented in the days after the service start-up, and constantly active – highlights their maintenance at higher values with respect to the service levels requested from the sector authority.

9.5 Technical and cartographical systems

A new autonomous cartographical system (SIR) was implemented with dismissal of the previous system in use and shared with ENEL (SIGRAF).

In December 2014, the functionalities of the new system were progressively enabled following the acquisition of the territorial cartographical bases that were collected in the previous months and equipped with the information pertaining to gas networks.

At the same time, the integration of the remote metering and monitoring devices into a single management system (TLM for remote metering, TLA for remote monitoring) was started.

In addition, the remote surveillance of the cathodic protection systems was also extended to the plants of the former G6 Rete Gas, reducing the need for controls with the operator as well as the detailed monitoring of the state of protection of steel networks.

The activity, initiated in the last months of 2013 and concluded in the first months of 2014, provides for the field installation of about 1,600 remote control devices.

9.6 Electronic meters (Resolution no. 155/08)

At the end of 2013, the AEEGSI, by means of Resolution 631/2013/R/GAS “Directives for the installation of gas metering units characterized by minimum functional requirements”, confirmed its intention to extend, within the nation, the program for replacing traditional metering devices with remotely operated electronic devices.

As of 2014 and in the upcoming years, the Group will be involved in a complex program for renewing meters of domestic users, an authentic and significant revolution in the world of gas distribution.

Therefore, the new Directives confirmed – for the so-called mass-market meters (G4 and G4) – the expiry dates in force for 2018, and added intermediate expiry dates which require distribution companies with more than 200,000 final customers at 31 December 2013, such as 2i Rete Gas, to install 3% of their group of mass-market electronic meters by 31 December 2014 and 10% by 31 December 2015; the Directives also required the installation of 3% of the measurement devices by 31 December 2015 and, as previously noted, 60% by 31 December 2018.

The resolution had highlighted, in its foreword, how the Authority had received confirmation from the manufacturers that, in 2014, there would have been an effective availability of the electronic meters in addition to receiving a communication from the Italian Gas Committee that the missing parts of regulation UNI/TS 11291 would be made available at the start of the year.

During the year, the manufacturers, pointed anyway to problems within the supplies, despite which, at the end of the year, overall more than 68,000 electronic mass-market meters were installed, thereby broadly overcoming the minimum amount required by the Authority.

In relation to the mass-market meters, the Authority integrated – at the end of 2014, by means of Resolution 651/2014/R/gas – the provisions pertaining to installation and service start-up obligations pursuant to Resolution 631/2013/R/gas, by introducing the possibility

to use traditional meters in case of their replacement or new connections and within locations in which the replacement plan was not yet initiated, thereby simultaneously installing an equal number of electronic meters in the locations where, on the other hand, the plan is being added to those already planned for the attainment of the aforementioned objectives established by the Authority itself.

In 2014, the activities of the Avogadro Project relating to the mass-market electronic meters of the city of Biella continued: in the month of March, the tests for effective remote reading of the installed meters began.

This project presented to the Authority in the month of April 2013 is currently the first in Italy by size of operation and number of meters with remote reading being adjusted; the process is continuing as forecasted.

Primary objectives are: verification of performance of the devices installed in the field as well as the identification of critical areas for technological improvement, and the calibration of processes for installation of devices (meters and concentrators) in addition to their management.

The activities implemented within the Avogadro Project allowed for the field verification of the radio communications between meters and concentrators through the 169 MHz frequency, thereby allowing for an evaluation of the efficiency level as well as the reachability and robustness of the infrastructure.

The first results of the tests confirmed the validity of the choices made by the Group in relation to the implemented point-multipoint radiofrequency communication model.

Confirmation of the validity of the selected infrastructural model and the challenging objectives set by the Authority have led the Group to define and initiate, in 2014, the "G4-G6 Remote Management Project" which will be used to set up and support the massive installation plan for the domestic meters that are required by regulatory expiry dates.

The Project's objective is to oversee the evolution of new technologies as well as standardize procedures and processes: the latter is a key element given the amount of electronic meters, which must be replaced and remotely managed by the end of 2018.

The Project will involve the realization of a new central remote reading and management system, integrating the latter with measurement and invoicing systems for the Group, as well as the construction of the concentrator and meter network that must be initially implemented in 23 cities beyond Biella.

There are also plans for the revision of operational processes in support of the changes, which the use of electronic meters will create in day to day operations, thereby guaranteeing the efficiency and adequate training of the personnel concerned.

Project activities were initiated during the course of the year and have continued according to the program.

Finally, with reference to meters of higher classes defined as "industrial", the year 2014 was characterized by the continued adjustment of G10 and G25 meters as well as by the start-up of adjustment of class-G16 meters.

Adjustment activities therefore continued regularly in all of Italy with a year-end report of more than 26,500 metering units adjusted during the year with integrated meters or with add-on solutions in a lower number of cases, or by adding electronic devices to a traditional meter.

The adjustment objectives established by the Authority for the end of 2014 were largely overcome.

At the end of 2014, more than 53,000 industrial meters were therefore read remotely, 40% of which through an add-on solution and 60% with integrated meters.

9.7 Regulatory oversight activities

Even during the course of 2014, the Group actively participated in regulatory oversight activities, both at a national level through numerous work groups and UNI-CIG (Italian Gas Committee) commissions as well as at a European level.

10. Quality, Safety and Environment

Following the re-confirmation of the task assigned to the certification body “Certiquality S.r.l.” by means of a tender implemented at the end of 2013, the Audit for Renewal of Certifications pertaining to the integrated Quality, Safety and Environment (QSE) System was conducted in the first half of 2014 and involved the new organizational structure of 2i Rete Gas, thereby including all the years that were grouped together following integration with G6 Rete Gas.

The integrated QSE management system was active, compliant with the relevant regulations and able to ensure customer satisfaction. Safety management was effective and widespread throughout the Group. Improvement objectives were identified and pursued in line with the Group’s development.

The AEEGSI’s objectives were complied with.

No cases of non-compliance were reported.

The renewal of the current system certification was finalized on 12 June 2014 and is effective, even with reference to the more recent corporate variations, until June 2017, by which deadline renewal is expected.

Until this expiry date, the certification body will carry out, on annual basis, an audit in order to confirm the existence of the requirements pursuant to the system certification standards as per UNI EN ISO 14001:2004 Environmental Management System, BS-OHSAS 18001:2007 Safety Management System and UNI EN ISO 9001:2008 Quality Management System regulations.

10.1 Prevention and protection service

In line with the procedures provided for with the change of name of the direct subsidiary following acquisition of the investment held by Enel in March 2014, the prevention and protection service manager prepared the risk assessment documents for each production unit.

In addition, the Safety System Organization document was periodically updated for all Production Units in order to identify within the company, in compliance with the provisions of Legislative Decree 81/08, the Employer, Employer Delegate, Prevention and Protection Service Manager, and Prevention and Protection Service Employee.

10.1.1 Trend in injuries

With regard to operational personnel, there were 14 “non-serious” injuries in 2014, (i.e. less than a 30-day prognosis), while the number of “serious” injuries, (i.e. more than a 30-day prognosis) remained at zero.

With regard to injuries affecting operational personnel, the 2014 trend compared to previous year was unchanged, thereby confirming the previously attained standard.

10.1.2 Healthcare Monitoring Situation

In 2014, monitoring and compliance with the healthcare monitoring program was guaranteed according to the specifications, which emerged in the risk assessment and based on the correlated healthcare protocol.

The resources which were subject to routine inspections for guaranteeing their suitability to the task assigned were overall 1,649 (80% of personnel, considering that 2,043 human resources were employed at 31 December 2013); the table below summarizes the results, and it should be noted that the surveillance protocol was also applied to newly hired personnel in 2014, including interns.

Prevention Indicators for Healthcare Monitoring

Personnel subject to healthcare monitoring	1,649
No. of employees deemed suitable for their position	1,473
No. of employees deemed suitable for their position, with limitations	176
No. of employees not deemed suitable for their position	0
Cases of professional disease	0

10.2 Environmental issues

In 2014, the Quality, Security and Environment unit also guaranteed constant monitoring of the most significant environmental aspects.

In accordance with the Prevention and Protection Service, the environmental investigations of the asbestos fibres in the air at the investigated sites continued as scheduled; the results were significantly below the threshold limits of reference.

In compliance with the schedules, the intervention plan for replacement of coverings containing asbestos continued within technological buildings and within sites where its presence was detected; this plan is implemented in compliance with the most recent sector regulations.

The acoustic characterization of the REMI stations and monitoring of the acoustic impact of the reduction groups continued in 2014 in order to allow the relevant internal units to plan any potentially subsequent actions and/or interventions for mitigating environmental impact.

With regard to the waste tracking system SISTRI, effective as of March 2014, the QSE implemented, in compliance with sector regulations, the provisions on the methods for managing hazardous special waste produced in the production units concerned. To support and monitor the management of special waste, a special software application named "Atlantide" was developed with the testing phase in 2014 and during production in January 2015.

10.3 Annual Quality Report on the Distribution Service, Inspection Audits pursuant to AEEGSI Resolution 120/08.

As usual, as required by the AEEGSI by means of Resolution 120/08, the QSE proceeded with communicating information on commercial quality services that were implemented in 2013.

The reporting concerned all aggregate data relating to the plants operated by Enel Rete Gas (now 2i Rete Gas) as well as the data for plants operated by G6 Rete Gas for the period 1 January – 30 September.

Immediately after communicating the data to the Authority, the QSE unit started the inspections of the local offices to ensure the consistent collection of the documents about the reported services, both for the commercial quality of the service and security and continuity issues.

The results were generally in line with expectations; any situations that could require improvements were reported to the relevant departments (operations, transport, and engineering) to allow for an analysis of non-compliance situations and identify the most appropriate corrective actions.

11. Water sector

The management of the potable water service continued within the 13 municipalities in which the Group is still active.

It should be noted that, on 29 December 2014, 2i Rete Gas undersigned, with the municipality of Romentino (NO) (around 1,700 final customers) an to transfer the potable water distribution service to the integrated water service company of ATO (Optimal Territorial Area) 1 of Verbano Cusio Ossola and Pianura Novarese. As of 1 January 2015: Acqua Novara VCO S.p.A. has managed this service.

12. Human resources

12.1 Company organization

2014 was characterized by extraordinary activities and commitments aimed to standardize organizational models and work processes as well as company procedures and rules in addition to enhancing the value of core businesses and internal know-how along with added value created through newly hired personnel with potential and/or specific professional skills, the consolidation of current managerial skills, the creation of cultural/managerial bases for the gradual creation of a single and new corporate culture within an organization that is now integrated at both the central and territorial level.

The commitment was focused upon the optimization and regulation of new organizational models and processes that are mainly connected to emergency/availability services as well as IT planning of technical/operational aspects of customer management and operation/maintenance (WFM project) in relation to which trade union agreements were also signed in relation to economic/regulatory treatment.

In addition, internal expertise was also enhanced through the transfer of personnel in order to gradually insource transport activities and IT operations with the implementation of the relevant organizational structures. Even in terms of market selection, the focus was on strengthening the Network Commercial Services, on the one hand, and the IT Systems on the other in order to build heterogeneous teams with professional skills that are suitable for successfully implementing the insourcing project for the aforementioned responsibilities/activities despite continuing the targeted recruitment and selection work for hiring professionals with specialized and/or potential skills.

Departures for reasons other than redundancy (retirement, resignations, etc.) were normal in the first half of the year.

Here below is the breakdown of staff at 31 December 2014:

	Executives	Middle Managers	Office Employees	Workers	Total
Personnel at 31 December 2013	35	100	1,122	786	2,043
Change in consolidation area	0	1	4	8	13
Increase	0	4	62	1	67
Decrease	(2)	(8)	(66)	(73)	(149)
Change in category	0	9	(6)	(3)	0
Personnel at 31 December 2014	33	106	1,116	719	1,974

Average number of employees of the 2i Rete Gas Group (former F2i Reti Italia)

	2014	2013
Executives	34	34
Middle Managers	105	99
Office Employees	1,105	1,119
Workers	758	794
Total	2,002	2,047

12.2 Relations with trade unions

The year 2014 was characterized by numerous trade union meetings both at national and territorial level. The maintenance of positive industrial relations led to agreements that are decisive for the successful integration and re-organization of the company as well as for the creation of a new corporate structure. These include, in particular: agreements for the standardization of economic/regulatory treatment of personnel from the companies, merged in the two previous years; redundancy agreements mainly addressed to personnel with retirement prerequisites; and agreements pertaining to working hours as well as the optimization of company car assignments.

12.3 Training and development

2014 saw the end of a managerial training course that involved all first and second level company participants within the registered office and the territory, totalling 90 people.

At the same time, the second half of the year involved the planning, organization and supply of the initial part of a managerial training course with multiple modules that targeted certain key company resources belonging to a variety of Divisions and Departments: 31 individuals participated in the first three modules.

In addition:

- a training course targeting all of the personnel of the internal and local Business Development Division was planned and implemented, focused on Corporate Administrative Liability (Legislative Decree 231/01) and with reference to both the general context and the specific company situation;

- a cycle of training/education on privacy was completed and involved all the Data Processors, which then trained/informed the relative collaborators.

13. Information systems

The year 2014 was characterized by a significant commitment by the entire IT Systems unit and other company departments for the purposes of insourcing and autonomous management of the ICT service that was previously managed by the Enel Group within the scope of the envisaged service contracts.

In order to realize this insourcing, a new internal ICT organizational structure for the 2i Rete Gas Group was defined and a special project was created in order to guarantee the completely autonomous operation of services and applications by the end of 2014.

The project was organized in different areas, each one dedicated to the realization of the Data Center service and the migration of applications from the Data Centers of Enel, the takeover of the application management of systems which will be acquired by Enel, the implementation of new systems in replacement of corresponding ones that are not subject to acquisition, the realization of the distributed infrastructure of data networks to connect all operational headquarters of 2i Rete Gas and the activation of support services for daily operational management (local networks, PC, telephony), including the support of the IT Call Center.

During the year, the new Data Center of 2i Rete Gas was activated in the month of June and, at the same time, the implementation of the MPLS infrastructure was initiated for the realization of the data network of 2i Rete Gas that would be used to connect 91 sites of 2i Rete Gas within the national territory.

In terms of applications, and in the first part of the year, the 16 acquired systems were taken over and 12 new systems were developed, including the cartographical system (implemented within the ESRI platform), the system for managing the reporting of breakdowns and the remote reading system for meters pertaining to supplies with range >G6, all of which initiated production during the last quarter.

In 2014, the G4-G6 Remote Management Project begun for the purposes of creating the remote gas management system of 2i Rete Gas, an activity that significantly involved a large number of central and territorial company departments in the second half of the year. Even in this case, a special project was defined which involved entities from different company units, and which guided and coordinated the planning and implementation activities of the peripheral and central system as well as the operational Control Room while also managing the revision of the operational processes and supporting internal and external communications.

The remote management system is composed of a peripheral and central system. The peripheral system is composed of "point-point" electronic meters, which communicated with the central system through the GPRS mobile network, and as well "point-multipoint" meters which communicated through a radio network using the Wireless M-Bus 169 MHz

frequency and created with concentrators that, in turn, communicate with the central system through the GPRS mobile network.

These systems are monitored and managed through a control room that is capable of operating remotely in order to manage the radio network and to evaluate and interpret, even automatically, any reports coming in from the field in order to optimize interventions on the field that need to be requested from the operational personnel of the areas.

In 2014, remote reading modules for the central system were constructed and, in that way, the process for remote reading of the meters installed in Perugia was initiated; Perugia was the city in which the radio network Wireless M-Bus 169 MHz was first implemented.

Normal activities relating to IT systems were conducted in continuity with respect to previous years and involved even significant interventions for both incorporating and making operational the regulatory adjustments issued by the Authority for Electricity and Gas as well as optimizing the managed processes.

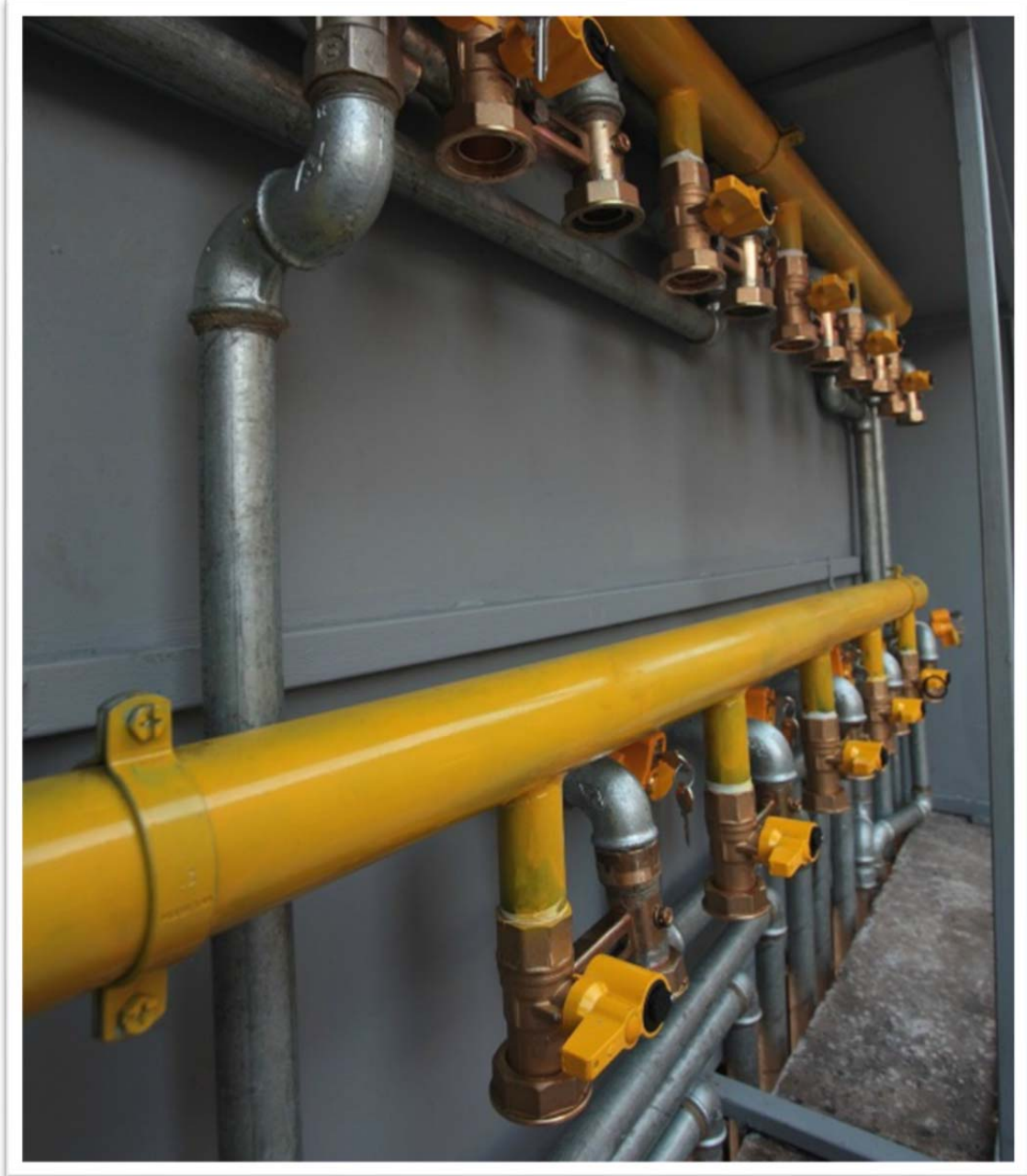
Following the completion of the ICT insourcing project, further effort is expected in 2015 in order to increase the efficiency of operational processes by simplifying and optimizing the functionalities of the IT system in order to reduce system operations of personnel within local offices and make the integration between different application map systems more efficient.

From this perspective, a new mobile solution to support the field personnel is planned for all customer management, operations and maintenance activities in addition to a solution for the graphical design of the plants integrated with the central systems in order to streamline the process for technical and commercial estimates as well as the subsequent costing from the contracting company.

With regard to the gas G4-G6 remote management project, the construction of the central system is expected along with the management of the electro valve command operations as well as the extension of the radio network construction across a greater number of cities in order to support the attainment of the objectives set by the AEEGSI for 2015 in terms of remote reading of meters.

14. Research and development

During the year, no R&D activities were implemented. Development, on the other hand, was oriented towards the in-depth analysis and verification of some technologies aimed at the control of quality of works and new materials.



Storage site - Batteries

15. Risk management

As stated in the Directors' Report in the section concerning company risk, below are described the main financial risks that are typical of the sector in which 2i Rete Gas (former F2i Reti Italia) operates. With regard to liquidity, credit and market risks, refer to the relevant section in the explanatory notes of the consolidated financial statements.

15.1 Operational risks

The management of natural gas distribution networks involves the risk of unpredictable malfunctioning or suspension of the service due to factors that are beyond the control of the Group, including accidents, breakdowns or malfunctioning of devices or control systems, underperformance of plants and extraordinary events such as explosions, fires, earthquakes, landslides and other natural calamities. These events can result in a suspension of the service as well as serious damages to individuals or assets or to the environment and/or economic and social damages.

Potential service suspensions, inadequate performance or inadequacy in the facilities of the Group and/or the consequent compensation obligations could result in a decrease in revenues, an increase in costs and/or regulatory interventions. The Group has stipulated specific insurance policies against these risks, which could be adjusted to the types and amounts of damages that could be caused.

15.2 Regulatory risks

The Group could be exposed to risks linked to changes in tariff levels applied to its operations, which are regulated within the natural gas distribution sector.

For example, a change in regulatory variables or in the method used for the regulation – including but not limited to methods with which the contributions received for network development and the infrastructure are included within the tariff for each regulatory period – could influence the levels of tariffs applicable to the activities of the Group, thereby generating negative effects on revenues and margins.

The regulatory period went from four to six years; during this period, the AEEGSI will only revise the WACC (weighted average cost of capital) and the efficiency coefficient (as defined in the regulatory and tariff framework) every two years.

15.3 Risks from future trend in natural gas consumption:

The environment in which the Group currently operates has been affected by the recent crisis of the banking system and of the global financial markets, as well as by the consequent global deterioration of macroeconomic conditions, with a decrease in consumption and industrial production.

The gas consumption is strongly affected by the level of economic activity of a country.

In Italy, austerity policies had a negative effect on growth and the Italian government is subject to stronger pressure relating to public finances, with the consequent risk of an increase in fiscal pressure.

Although the proceeds of the operational companies of the Group do not directly depend upon distribution volumes – and as a result the Group does not suffer from any risk on volumes of demand – a prolonged economic crisis with reduced levels of gas consumption could result in an increase in interventions by the government and changes in the legislative framework.

15.4 Environmental and security risks

Management and maintenance of gas distribution networks is considered to be a potentially dangerous activity, and could cause damages to members of the public and/or employees of the Group. The Group is subject to national and EU laws and regulations governing health and security for the public and employees.

For the execution of its operations, the Group uses potentially hazardous products and sub-products, and the sites in which it operates are subject to laws and regulations (including urban planning laws) relating to pollution, environmental protection and the use/disposal of hazardous substances and waste.

These laws and regulations expose the Group to costs and liabilities that related to its operations and plants, including those relating to the disposal of waste.

Costs pertaining to future obligations of potential environmental restorations are subject to uncertainties pertaining to the extent of contamination, appropriate corrective actions and the portion of liability ascribable to the Group, all of which are often intrinsically difficult to calculate.

In order to mitigate risk, the Group has equipped itself of specific insurance policies that are suitable for covering both the cost of interventions for containing potential pollution as well as that for restoration and any associated damages.

16. Significant events after the reporting period and outlook

With regard to the merger of di 2i Rete Gas S.p.A. into 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.), effective as of 1 January 2015, refer to what illustrated above.

As previously noted, the advance redemption of the financing disbursed on 20 December 2013 from a pool of banks whose agent bank was IMI occurred on 2 January 2015. The advance redemption refers to two Facilities Agreements granted to 2i Rete Gas (former F2i Reti Italia) and F2i Reti Italia 2 S.r.l., the incorporated company following the merger, for a total of 214,181 thousand euro, including 210,000 thousand euro in capital and 4,181 thousand euro in interests.

In the month of February 2015, by means of sentence no. 10, the Constitutional Court declared the constitutional illegitimacy of the so-called Robin Hood Tax, i.e. the additional IRES (corporate income tax) for the oil and energy sector, effective as of the day following publication of the sentence itself within the Official Gazette, i.e. 12 February 2015.

Taking into account that this declaration of illegitimacy was subsequent to the end of the reporting period, and given various regulatory uncertainties, the financial statements were drafted based on the regulations in force at 31 December 2014.

The parent company is following the legal debate in order to more effectively report this event in 2015.

During 2015, work will continue to improve operational efficiency and to contain costs. The forecast profit for 2015 shall reflect regulatory measures, market trends, the economies of scale and cost efficiency, which can be achieved given the size of the customer base.

In particular, for the Group the action undertaken will aim to:

- focus resources on the highest added value activities in network management, through greater concentration and specialisation of the operational structures;
- create significant synergies at local level to optimise its presence and act increasingly effectively also by integrating the subsidiaries' IT systems;
- pursue and improve the use of IT tools, in particular in dealings with customers, in order to achieve greater efficiency;
- continue to decrease the number of injuries in the company by improving work quality and safety in all aspects.

17.Reconciliation of equity and net income for the year

The reconciliation of equity and net income for the year shown in the financial statements at 31 December 2014 of 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.) and the corresponding values in the consolidated financial statements are described below:

Thousands of euro	Equity	Profit for the year recognised in Equity	Profit for the year recognised in profit and loss	Totale Group Equity
F2i Reti Italia S.r.l. separate report - Local GAAP	643,959	0	(7,800)	636,159
IFRS Adjustments 2009	(74,956)			(74,956)
IFRS Adjustments 2010	(77)			(77)
IFRS Adjustments 2011	46,023			46,023
IFRS Adjustments 2012	(40,883)			(40,883)
IFRS Adjustments 2013	(16,127)			(16,127)
IFRS Adjustments 2014	11		85,713	85,724
F2i Reti Italia S.r.l. separate report - IFRS	557,949	0	77,913	635,862
Elimination of investment and Intercompany Transactions	29,294	40,697	(65,892)	4,099
Non-controlling interests	835	41	20	896
F2i Reti Italia S.r.l. consolidated report - IFRS	588,078	40,738	12,041	640,857

The main effects reported as “Adjustments implemented at the time of consolidation” at 31 December 2014 are mainly due to the consolidation of the shareholding in Genia S.p.A. and GP Gas S.r.l. as well as related allocations of the acquisition price in addition to the related fiscal effect.

2i Rete Gas S.p.A.
The Chairman
Marco Ciabattoni
(signed on the original)

IV Consolidated Financial Statements of the 2i Rete Gas Group (former F2i Reti Italia)

1. Income Statement

Thousands of Euros	Notes	31.12.2014	31.12.2013
Revenue			
Revenue from sales and services	5.a	608,150	636,507
Other revenue	5.b	86,173	93,315
Revenue from intangible assets / assets under development	5.c	144,622	116,436
	Sub-total	838,945	846,258
Costs			
Raw materials and consumables	6.a	42,745	31,954
Services	6.b	226,609	225,197
Personnel expense	6.c	116,044	112,793
Amortisation/depreciation and impairment losses	6.d	150,953	146,355
Other operating costs	6.e	91,917	95,128
Internal work capitalised	6.f	(20)	(878)
	Sub-total	628,247	610,550
Operating profit		210,698	235,708
Income/(expense) from equity investments	7	43	242
Financial income	8	1,494	1,360
Financial expense	8	(202,656)	(101,976)
	Sub-total	(201,118)	(100,373)
Pre-tax profit/(loss)		9,580	135,335
Income taxes	9	(2,461)	69,370
Profit/(loss) from continuing operations		12,041	65,964
Profit/(loss) from discontinued operations	10	0	0
PROFIT/(LOSS) FOR THE PERIOD		12,041	65,964

2i Rete Gas S.p.A.
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2. Statement of Comprehensive Income

Thousands of Euros	31.12.2014	31,12,2013
Net profit attributable to parent company	12,021	54,375
Net profit attributable to third parties	0,020	11,589
Net profit recognized to income statement	12,041	65,964
Other comprehensive income		
<i>Items that will never be reclassified to profit or loss</i>		
remeasurement of the defined benefit liability - parent company	(4,577)	0,216
deferred tax that will never be reclassified to profit or loss	1,895	(0,073)
remeasurement of the defined benefit liability - third parties	(0,005)	0,038
deferred tax that will never be reclassified to profit or loss	0,002	(0,013)
	(2,684)	0,167
<i>Items that are or may be reclassified to profit or loss</i>		
change in fair value of hedging derivatives - parent company	0,000	32,102
change in fair value of hedging derivatives (tax effect) - parent company	0,000	(10,915)
change in fair value of hedging derivatives reclassified to profit or loss- parent company	65,726	
change in fair value of hedging derivatives reclassified to profit or loss (tax effect) - parent company	(22,347)	
change in fair value of hedging derivatives - third parties		5,621
change in fair value of hedging derivatives (tax effect) - third parties		(1,911)
change in fair value of hedging derivatives reclassified to profit or loss- third parties	0,066	
change in fair value of hedging derivatives reclassified to profit or loss (tax effect) - third parties	(0,022)	
	43,423	24,897
Other comprehensive income	40,738	25,064
Total comprehensive income	52,779	91,029
Total comprehensive income attributable to:		
parent company	52,718	75,705
third parties	0,061	15,324

2i Rete Gas S.p.A.
The Chairman
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3. Statement of Financial Position

3.1 Assets

Thousands of Euros	Notes	31.12.2014	31.12.2013
ASSETS			
Non-current assets			
Property, plant and equipment	11	40,825	34,499
Intangible assets	12	2,765,276	2,751,901
Deferred tax assets	13	113,227	48,851
Equity investments	14	3,329	3,329
Non-current financial assets	15	7,993	676
Other non-current assets	16	23,779	6,535
	<i>Total</i>	2,954,429	2,845,792
Inventories	17	7,794	6,344
Trade receivables	18	213,622	284,304
Current loan assets	19	957	5,669
Other current financial assets	20	26	0
Cash and cash equivalents	21	108,506	147,110
Current tax assets	22	21,699	6,768
Other current assets	23	163,138	137,146
Non-current assets (or assets included in disposal groups) held for sale		0	0
	<i>Total</i>	515,743	587,342
TOTAL ASSETS		3,470,171	3,433,134

2i Rete Gas S.p.A.
The Chairman
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3.2 Liabilities

Thousands of Euros	Notes	31.12.2014	31.12.2013
EQUITY AND LIABILITIES			
Equity - owners of the parent			
	24		
Share capital		3,636	3,100
Treasury shares		0	0
Other reserves		640,323	522,155
Retained earnings		(16,019)	9,999
Profit/(loss) for the period/year		12,021	54,375
Equity - owners of the parent		639,961	589,629
Equity - non-controlling interests			
Non-controlling interests		876	120,270
Profit/(loss) attributable to non-controlling interests		20	11,589
Equity - non-controlling interests		896	131,859
EQUITY			
		640,857	721,488
Non-current liabilities			
Non-current loans and borrowings	25	2,086,923	1,910,433
Post-employment and other employee benefits	26	39,052	37,151
Provision for risks and charges	27	9,600	11,192
Deferred tax liabilities	13		
Non-current financial liabilities	28	0	24,020
Other non-current liabilities	29	283,342	272,131
	<i>Total</i>	2,418,918	2,254,928
Current liabilities			
Current loans and borrowings	30	7,791	0
Current bank loans and borrowings	31	0	0
Current portion of non-current and current provisions	32	59,588	50,397
Trade payables	33	184,201	147,900
Current tax liabilities	34	23	16,106
Current financial liabilities	35	15,611	72,323
Other current liabilities	36	143,182	169,992
Liabilities held for sale	37	0	0
	<i>Total</i>	410,396	456,718
TOTAL LIABILITIES		2,829,314	2,711,646
TOTAL EQUITY AND LIABILITIES		3,470,171	3,433,134

2i Rete Gas S.p.A.
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4. Statement of Cash Flows

Thousands of Euros		31.12.2014	31.12.2013
A) OPENING CASH AND CASH EQUIVALENTS	21	147,110	134,801
Cash flows from operating activities			
Pre-tax profit/(loss)		9,580	135,335
Tax expense	9	2,461	(69,370)
Profit/(loss) from discontinued operations	10	-	
1. Profit/(loss) for the period		12,041	65,964
Adjustments for:			
Amortisation/depreciation	6.d	150,184	139,797
Impairment losses/(Reversals of impairment losses)	6.d	415	1,438
Gains/(losses)	5.b/6.e	1,883	(1,203)
Accrual to the provisions for risks and charges and post-employment benefits		12,953	30,497
Net financial income	7 and 8	201,118	100,373
2. Total adjustments		366,553	270,902
Change in net working capital			
Inventories	17	(1,450)	1,355
Trade receivables	18	70,682	(71,767)
Trade payables	33	36,302	(19,237)
Other current assets	23	(25,992)	(3,724)
Other current liabilities	36 and 37	(26,810)	40,267
Net tax assets/(liabilities)	22 and 34	(31,014)	18,554
Decrease in the provisions for risks and charges and post-employer	26, 27 and 32	(3,453)	(225)
Decrease in the provisions for deferred taxation	13	(64,376)	(6,881)
Other non-current assets	16	(17,244)	320
Other non-current liabilities	29	11,212	12,394
Financial income/(expense) other than for financing activities	7 and 8	(963)	(812)
3. Total change in net working capital		(53,107)	(29,755)
B) CASH FLOWS FROM OPERATING ACTIVITIES (1+2+3)		325,487	307,111
Cash flows from investing activities			
Net non-current assets		(172,182)	(119,684)
Net non-current financial assets	14	(0)	(225)
C) CASH FLOWS USED IN INVESTING ACTIVITIES		(172,182)	(119,909)
D) FREE CASH FLOW (B+C)		153,305	187,202
Cash flows from financing activities			
Dividends paid		(89,000)	(56,000)
Capital Increase		536	0
Change in reserves		96,189	87
Change in controlling interest		(6,369)	0
Change in minorities interest		(130,983)	(8,493)
Change in Hedging reserve		36,953	21,187
Change in amortized cost	25, 30 and 31	2,630	12,967
Change in Fair Value evaluation of IRS Derivatives	7 and 8	(65,792)	(37,722)
Financial income/(expense) from Derivative Fair Value	7 and 8	(39,952)	0
Financial income/(expense) from Financing Activities	7 and 8	(94,411)	(99,562)
Change in bank and other financing institutions debt	25, 30 and 31	181,651	9,708
Change in non-current financial liabilities	28	(24,020)	(6,150)
Change in other non-current financial assets	15	(7,317)	(50)
Change in other loan assets	19 and 20	4,688	(5,662)
Change in other loans and borrowings	35	(56,713)	(5,204)
E) CASH FLOWS USED IN FINANCING ACTIVITIES		(191,909)	(174,893)
F) CASH FLOWS FOR THE PERIOD (D+E)		(38,604)	12,309
G) CLOSING CASH AND CASH EQUIVALENTS	21	108,506	147,110

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5. Statement of Changes in Equity

Thousands of Euros	Share capital and reserves										
	Share capital	Quota premium reserve	Legal reserve	Capital transfer reserve	Hedging reserves	Other reserves	Retained earnings	Profit/(loss) for the period	Total - owners of the parent	Total - non-controlling interests	Total equity
Total at 31 December 2012 - restated	3,100	362,794	620	195,300	(58,140)	(1,335)	23,570	44,071	569,979	128,763	698,742
<i>Allocation of profit 2012:</i>											
Allocation of profit						1,731	42,340	(44,071)	0		0
<i>Contributions and distributions</i>											
- Dividends paid							(56,000)		(56,000)		(56,000)
<i>Total contributions and distributions</i>									(56,000)		(56,000)
- Contribution from change in consolidation scope									0		0
<i>Other changes</i>							34		34	(8,493)	(8,459)
Re-purchase of treasury shares									0		0
Profit for the period recognised in equity									0		0
Change in IFRS reserves					21,187		53		21,241		21,241
Profit for the period recognised in profit or loss								54,375	54,375	11,589	65,964
Total 31 december 2013	3,100	362,794	620	195,300	(36,953)	395	9,999	54,375	589,629	131,859	721,488
<i>Allocation of profit for 2013:</i>											
Allocation of profit							54,375	(54,375)	0		0
<i>Contributions and distributions</i>											
- Dividends paid		(11,227)					(77,773)		(89,000)		(89,000)
<i>Total contributions and distributions</i>									(89,000)		(89,000)
Other changes (F2i R12 Merger)	536					92,441	(6,369)		86,608	(130,968)	(44,360)
<i>Other changes</i>							(2,677)		(2,677)	(59)	(2,736)
Re-purchase of treasury shares									0		0
Profit for the period recognised in equity									0		0
Change in IFRS reserves					36,953		6,426		43,379	43	43,422
Profit for the period recognised in profit or loss								12,021	12,021	20	12,041
Total 31 december 2014	3,636	351,567	620	195,300	0	92,836	(16,019)	12,021	639,961	896	640,857

2i Rete Gas S.p.A.
The Chairman
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6. Notes to the financial statements

6.1 Format and contents of the Financial Statements

The 2i Rete Gas Group (former F2i Reti Italia) operates mainly in the gas distribution sector.

The parent is currently a joint stock company and is located in Milan, Via Paolo da Cannobio, 33.

Since the parent 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.) controls 2i Rete Gas SpA (the main operating company), which prepares its separate and consolidated financial statements based on the International Financial Reporting Standards (IAS/IFRS), issued by the International Accounting Board (IASB) - recognized in the EU as per (EC) regulation 1606/2002 - and in force at the end of the reporting period, the consolidated financial statements of the 2i Rete Gas Group (former F2i Reti Italia) at 31 December 2014 are prepared on the basis of international IAS/IFRS accounting principles.

The directors of the parent company, on 26 March 2015, approved the statutory and consolidated financial statements as well as publication to shareholders within the deadlines pursuant to Article 2429 of the Italian Civil Code.

The statutory financial statements is presented for approval to the shareholders' meeting of 29 April 2015 and registered within the deadlines pursuant to Article 2435 of the Italian Civil Code.

The shareholders' meeting retains the power to apply changes to these financial statements.

For the purposes of IAS 10.17, the date taken into consideration by directors in preparing the financial statements is 26 March 2015, the date of approval by the Board of Directors.

These consolidated financial statements, as well as the statutory financial statements, are audited by KPMG S.p.A.

6.2 Compliance with IFRS/IAS

The consolidated financial statements at 31 December 2014 were prepared in compliance with the International Financial Reporting Standards – IAS/IFRS issued by the International Accounting Board (IASB), recognized in the EU by (EC) regulation 1606/2002 and in force at the end of the reporting period, as well as the related SIC/IFRIC interpretations issued by the Interpretation Committee and in force on the same date. The aforementioned key standards and interpretations are hereafter collectively referred to as “IFRS-EU”.

6.3 Basis of presentation

The consolidated financial statements consist of the Income statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related Notes.

The assets and liabilities reported in the Statement of Financial Position are classified on a “current/non current basis” with separate reporting of assets and liabilities held for sale.

Current assets, which include cash and cash equivalents, are those intended to be realised, sold or used during the normal Group operating cycle or in the twelve months following the reporting period; current liabilities are those expected to be settled during the normal Group operating cycle or within the twelve months following the reporting period.

The Income Statement items are classified based on the nature of costs, while the Statement of Cash Flows is presented using the indirect method.

The consolidated financial statements are presented in euro (the functional currency) and the values shown in the notes are expressed in thousands of euro, unless otherwise stated.

The consolidated financial statements have been prepared using the historical cost method, except for those financial statement items, which, in accordance with the IFRS-EU, are measured at fair value, as indicated in the valuation criteria for the individual items.

These consolidated financial statements have been prepared on a going-concern basis, as set out more in detail in the Directors’ Report.

6.4 Consolidation criteria

The financial statements of the subsidiaries used to draft the consolidated financial statements at 31 December 2014 were prepared in compliance with the accounting principles adopted by the parent company.

For preparing the consolidated financial statements, the debit and credit items were cancelled as well as the costs and revenues and any operations of significant amount that were implemented between companies included in the scope of consolidation.

Unrealised profits are also cancelled as well as capital gains and losses arising from transactions between Group companies.

The consolidated financial statements of 2i Rete Gas (former F2i Reti Italia):

The consolidated financial statements of 2i Rete Gas are aggregated according to the line-by-line method and the elimination of the carrying value of equity investments against the related equity item.

The difference between the acquisition price of the investments and the related shareholders’ equity on the purchase date was allocated as an adjustment of assets and liabilities until the current value of the financial items on the same date was achieved, by accounting under minority interests the relevant portion of these value adjustments to assets and liabilities.

Pursuant to the provisions of IFRS 3, and at the time of accounting for the business combination, the difference between the book value of the equity investments and the corresponding portion of fair value of acquired assets and liabilities was negative (badwill); it was recorded under revenues in the year of acquisition of the control (2009).

Similarly, in 2011 the adjustment of the compensation for 4.6 million euro (badwill) in favour of the acquiring party F2i Reti Italia was recognised under revenues in the item "other non-recurring revenues from business combinations".

The sub-consolidated financial statements of 2i Rete Gas:

The sub-consolidated financial statements were prepared by applying the line by line consolidation method for the data of the parent and subsidiaries over which it retains direct or indirect control. The control exists when the Group may incur in variable returns deriving from its relationship with the company or if it retains rights over these returns while being, at the same time, capable of influencing them by exercising its power over the company itself. The financial statements of the subsidiaries are included within the consolidated financial statements from the time the parent company begins to exercise control and up to the date in which the control ends.

The Group books its business combinations by applying the method of acquisition on the date in which it effectively obtains control of the acquired firm. With regard to this point, refer to the following paragraph.

Minority interests are measured in proportion to the related portion of net assets that can be identified for the acquired company on the acquisition date. Changes in the investment of the Group in a subsidiary, which do not involve a loss of control, are recognized as transactions between shareholders acting in the capacity of shareholders.

In the case of loss of control, the Group will eliminate the assets and liabilities of the subsidiary as well as any potential minority interests and other shareholders' equity items pertaining to subsidiaries. The gain or loss deriving from the loss of control is recognized in profit or loss. The potential residual investment maintained in the previously controlled company is measured at fair value on the date of the loss of control.

During preparation of the consolidated financial statements, the debit and credit items are cancelled as well as any costs and revenues and all transactions of significant amount between the companies included in the consolidation.

Unrealised profits are cancelled as well as capital gains and losses arising from transactions between Group companies.

6.5 Use of estimates

Preparing the financial statements under the IFRS-EU requires the use of estimates and assumptions, which impact the values of assets and liabilities and disclosure on contingent assets and liabilities at the end of the reporting period, as well as on total revenues and

costs in the reference period. The estimates and the related assumptions are based on previous experience and other factors considered reasonable in the circumstances. They are used when the carrying amount of financial statement items cannot be easily deduced from other sources. The actual results might therefore differ from the estimated ones. The estimates and assumptions are periodically revised and the effect of each change is reflected in profit or loss, should that revision relate only to the year in question. When the revision relate to both current and future years, the change is recorded in the year in which it is carried out and in the related future periods.

6.5.1 Recognition of revenues

Revenues for gas transport are calculated on an annual base as of 2009, by using the criterion introduced by Resolution 159/08 for definition of the Tariff Revenue Cap (VRT, "Vincolo dei Ricavi Tariffari") allowed for each gas distribution company. Based on Resolution 573/2013/R/Gas of December 2013, the parameters which regulate the calculation of the VRT for the years from 2014 to 2019 (fourth regulatory period) were defined.

This figure for revenues is accounted for in the invoicing of gas transport to sales companies and, to complement the VRT value, in the Compensation Fund equalisation element. Since it is necessary to base the calculations for the VRT on a recognition of assets that is updated to the previous year, the Group must also estimate a growth rate for its average active redelivery points to enable the updating of the figure for the year just ended. Therefore, the value indicated also includes an estimated element, whose impact is largely insignificant, connected to the increase in the average number of active redelivery points. When the balance is calculated, the value of the VRT annually communicated by the AEEG by means of a specific resolution may be subject to change depending on the actual average number of redelivery points served and invoiced.

6.5.2 Pensions and other post-employment benefits

Some Group employees participate in pension plans, which offer benefits, based on their wage trend and years of service. In addition, some employees benefit from other post-employment benefit schemes.

The expenses and liabilities associated with these plans are calculated based on estimates made by our actuarial consultants, who use a combination of statistical and actuarial elements, including statistics relating to past years and forecasts of future costs. Estimates are also made of death and withdrawal rates, assumptions on the future trend in discount rates, the rates of wage increases and trends in the cost of medical care.

These estimates can significantly differ from actual developments owing to changes in economic and market conditions, increases or decreases in withdrawal rates and the lifespan of participants, as well as changes in the actual cost of medical care. Such

differences can have a substantial impact on the quantification of pension costs and other related expenses.

6.5.3 Recoverability of non-current assets

The carrying amount of non-current assets and assets held for sale is reviewed periodically and wherever circumstances or events suggest that a more frequent review may be necessary.

Where the carrying amount of a group of fixed assets is considered impaired, it is written down to its recoverable value, as estimated based on the use of the assets and their future disposal, in accordance with the Company's most recent plans.

The estimates of such recoverable values are considered reasonable. Nevertheless, possible changes in the estimation factors on which the calculation of such recoverable values is based, could generate different results. For more details on execution and results of the impairment test, refer to the related paragraph.

6.5.4 Disputes

The Group is involved in various legal disputes mainly relating to labour cases and litigation with some granting bodies.

Given the nature of these disputes, it is not always objectively possible to foresee the outcome of these proceedings, some of which could end with a negative outcome.

The calculation of the allocations is the result of a complex process that involves individual assessments by the company management.

The provisions for risks recorded in the financial statements have been estimated in order to cover all the significant liabilities for cases where lawyers have noted a likely negative outcome and made a reasonable estimate of the amount of the loss.

6.5.5 Bad debt provision

This provision reflects the estimates of losses on the Group's receivables portfolio. Allocations have been made for forecast losses on receivables, estimated on the basis of past experience in reference to receivables with similar credit risk, to current and historic unpaid amounts, write-offs and receipts as well as careful monitoring of the quality of the receivables portfolio and the current and forecast state of the economy and key markets.

Although the provision allocated is adequate, the use of different assumptions or a change in the economic circumstances could result in changes to the bad debt provision and, therefore, have an impact on profits.

The estimates and the assumptions are revised on a periodical base and the impact of each reflects in profit or loss in the relevant year.

6.6 Accounting policies and valuation criteria

These consolidated financial statements were prepared by homogeneously applying the following accounting principles in all reported years.

6.6.1 Restatement of comparative figures

In accordance with IAS 12 "Income Taxes", the comparative data were re-presented in order to report the net exposure between prepaid and deferred taxes. As a result, the financial change in the balance of 31 December 2013 – presented for comparative purposes – and the one reported in the financial statements approved on 31 December 2013, was represented by the reclassification of the balance of deferred taxes on that date as a decrease in the balance of prepaid taxes for 153,944 thousand euro. Such adjustment will not have a significant impact on the financial situation of the Group at 31 December 2013.

6.6.2 Investments in associates and joint ventures

Investments in associates refer to companies in which the Group retains a significant influence on financial and managerial policies despite not retaining control or joint control. Joint ventures are those companies in which the Group, on the basis of an agreement, retains rights over net assets.

Investments in associates and joint ventures are measured at cost first and subsequently recognized according to the equity method. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's portion of any profits or losses of subsidiaries that are recognized according to the equity method and until the date in which this significant influence or joint control ceases to exist.

6.6.3 Business combinations

Business combinations after 1 January 2010 are recognized based on the acquisition method pursuant to IFRS 3 (Revised). The identified acquired assets and liabilities are recognized at their respective fair values at the acquisition date. Any excess in the purchase cost over the fair value of the net assets acquired is accounted for as goodwill or, if a deficit, recognised in profit or loss. The book value of any potential goodwill is subject to an annual impairment test in order to identify potential impairment losses. Should it be possible to determine the fair value of the assets, liabilities and acquired contingent liabilities only provisionally, the business combination is recognised using these provisional values. Potential adjustments deriving from the completion of the measurement process are recognized within 12 months from the date of

acquisition. Transaction costs other than those pertaining to the issue of bonds and securities, and which the Group sustains in order to generate a business combination, are recognized as costs of the year when sustained.

6.6.4 Business combinations of joint ventures

Business combinations of companies in which the subsidiaries are definitively controlled by the same company or companies both before and after the business combination– and if this control is not temporary – are qualified as “Under common control”.

These operations are not regulated by IFRS 2 or by other IFRS. In the absence of an international accounting principle of reference, and in compliance with the principle of prudence which leads to the application of the criterion of continuity of values for net acquired assets, the Group has opted to recognize assets and liabilities from potential business combinations of entities under common control at the book value which these assets and liabilities retain within the financial statements of the selling/acquired entity or within the consolidated financial statements of the common controlling entity. If the transfer values are greater than these historical values, the surplus is cancelled by decreasing the shareholders' equity of the Group.

6.6.5 Property, plant and equipment

In compliance with IFRIC 12, effective as from 1 January 2010, the Group analysed its outstanding concessions at 31 December 2010 and made changes to the accounting method for fixed assets. As described in more detail below, and following the application of IFRIC 12, certain fixed assets that were previously considered tangible have now been reclassified as intangible. Property, plant and equipment not relating to gas distribution concessions are recognised at historical cost, including directly attributable ancillary costs necessary for the asset to be ready; subject to any legal or implicit obligations, the cost may be increased by the present value of the cost estimated for the dismantling and removal of the assets. The corresponding liability is recognised in liabilities under a specific provision for future risks and charges. Currently no liability is recorded in the statement of financial position linked to the dismantling and removal of assets, since there are no legal or implicit obligations, which justify such recognition. The acquisition or production cost includes financial charges pertaining to financing linked to the acquisition of tangible assets and only when a relevant period of time is necessary for the asset to be ready for use and when financing that is directly ascribable to the acquisition or construction of the assets can be identified. Some assets subject to revaluation on the date of transition to IFRS-EU international accounting principles, or in previous periods, are recognized on the basis of the revaluated cost, which is considered the deemed cost. If significant parts of individual tangible assets have different useful lifetimes, the identified components are recognized and depreciated separately. The costs sustained after the purchase are recognized as an increase in the book value of the item to which they refer and if it is possible that future benefits deriving from the cost will ascribed to the Group and if the

cost of the element can be reliably estimated. All other costs are recognized in profit or loss in the year in which they are incurred. The costs for replacing an entire asset or a part are recognized as an increase in the asset value and depreciated along their residual useful lifetime; the net book value of the replaced unit is recognized in profit or loss by recording the potential capital loss. Property, plant and equipment are recognized net of the related accumulated depreciation and any potential value losses, which are determined as, outlined below. Depreciation is calculated on a straight-line basis on the basis of the estimated useful life of the asset and is reviewed periodically; potential changes are recorded on a prospective basis. Depreciation begins when the asset is ready for use.

The estimated useful life of the main tangible assets is as follows:

Description	Useful life
Land	-
Non-industrial buildings	20-34 years
Industrial buildings	18-50 years
Miscellaneous equipment	8-10 years
Office furniture and equipment	8-13 years
Electronic devices	5 years
Vehicles	4-6 years
Cars	4 years

Land, both unbuilt and with industrial and non-industrial buildings, is not depreciated as it has an indefinite useful life, except for the land that is transferred for free at the end of the concession.

6.6.6 Intangible assets

As noted above, in compliance with IFRIC 12, effective as from 1 January 2010, the Group analysed its outstanding concessions at 31 December 2010 and made changes to the accounting treatment of fixed assets. In particular, and given that the Group is subject to the risk of demand, the accounting method which was deemed correct to apply is that of the intangible assets: all the infrastructures which are owned and obtained within a licensing agreement are no longer recognized as tangible assets but classified as intangible assets. The intangible assets are recognized at their acquisition or internal production cost when it is probable that the use of the aforementioned assets will generate future economic benefits and the related cost can be reliably determined. The cost includes accessory charges that are directly ascribable and necessary to make the assets available for use.

The cost includes the financial expenses relating to the loans connected to the purchase of intangible assets, exclusively when a significant period of time must elapse before the asset is ready for use and when the loans directly attributable to the purchase or construction of assets are identifiable.

Intangible fixed assets, which have a defined useful life, are reported net of the related accumulated amortization and any potential impairment losses, which are determined in accordance with the methods, outlined below. Amortization is calculated on a straight-line basis according to the estimated useful life and is reviewed on an annual basis; potential changes in depreciation criteria are applied on a prospective basis as well. The amortization begins when the intangible asset is available for use.

The estimated useful life of the main intangible assets is as follows:

Description	Useful life
Intellectual property rights	5 years
Concessions	concession life (*)
Licences, trademarks and similar rights	3 years
Goodwill	indefinite, subject to impairment testing
Others	5-10 years /Useful life of contract

(*) Amortisation is calculated based on the realisable value estimated at the end of the concession life, where applicable. In case of concessions expired at the end of the reporting period and whose expiration date has been postponed, the residual value is reviewed taking into account the relevant expiration postponement.

Intangible assets with an indefinite useful life are not subject to systematic amortization but subject to an impairment test that is at least annual. With regard to licenses, the 2i Rete Gas Group is a licensee of the gas distribution service that is assigned through a tender for a maximum period of 12 years and assigned by local entities (municipalities, unions of municipalities and mountain communities). Through service agreements, the municipalities can regulate the terms and conditions for the distribution service, as well as the quality levels to be achieved. The concessions are allocated based on the financial conditions, quality and safety standards, investment plans and the technical and managerial capabilities offered. As was the case also in the previous Report, it should be highlighted that a significant number of concessions obtained by the 2i Rete Gas Group for gas distribution were terminated on the basis of their natural expiry or by law at 31 December 2010.

Since the publication of Legislative Decree no. 93/11 on 29 June 2011, local authorities can no longer call new tenders except within the provisions included in the so-called "Decreto Ambiti" and "Decreto Criteri" issued in 2011. For this reason, currently only the municipalities, which had called tenders for the assignment of, gas distribution concessions prior to publication of Legislative Decree no. 93/11 can proceed with the aforementioned tenders. In all the other cases, tenders are suspended until municipalities are ready to call them on an area basis. In the meantime, the 2i Rete Gas Group is continuing to manage the network as it had done prior to the expiry date. If the license is not re-awarded to the Group, the latter would receive

payment of an indemnity equal to the industrial value of the goods subject to the license and determined in accordance with the regulations of reference.

6.6.7 Impairment losses

Tangible and intangible assets are reviewed at least once a year to determine whether there is evidence of impairment. If such evidence exists, the recoverable amount is estimated.

The recoverable amount of goodwill and intangible assets with an indefinite useful life, if any, as well as that of intangible assets not yet available for use is estimated at least annually.

For an asset which does not generate fully independent cash flows, including goodwill, the recoverable value is determined in relation to the cash generating unit (CGU) to which this asset belongs.

The recoverable amount is the higher of an asset's fair value, net of disposal costs, and its value in use.

When determining its value in use, future expected cash flows are discounted by using a discount rate that reflects current market valuations of the cost of money in relation to the time and specific risks of the asset.

An impairment is recognised in profit or loss if the carrying amount of an asset or of the CGU to which it is allocated, is higher than its recoverable amount.

Impairment of a CGU is charged at first against the carrying amount of any goodwill allocated to the CGU, then proportionally to reduce the other assets that make up the CGU. Impairment losses are reversed if the impairment has been reduced or is no longer present or there has been a change in the assumptions used to determine the recoverable amount. Impairment of goodwill can never be reversed in future years.

6.6.8 Inventories

Inventories are measured at the lower of cost and the net realisable value. The weighted average cost method is used, which includes relevant accessory costs. The net realisable value is the sale price estimated in normal business operations, net of the costs estimated for the sale or, where applicable, the replacement cost.

6.6.9 Financial instruments

The initial recognition of non-derivative financial assets and liabilities occurs, in the case of loans and credit/debit instruments, at the time in which they are issued, while for all other financial assets and liabilities it occurs on the trading date. Financial assets are cancelled from the financial statements when: i) contractual rights to receive financial flows are redeemed; ii) when the Group has retained the right to receive financial flows from the

asset but has assumed the contractual obligation to pay them fully with delay to a third party; or iii) when the Group has transferred the right to receive the financial flows from the asset and has substantially transferred all the risks and benefits deriving from ownership of the financial asset or has transferred control of the financial asset.

Potential residual involvements in the transferred asset that originated from or are maintained by the Group are recognized as separate assets or liabilities.

The Group will proceed with the cancellation of a financial liability when the bond specified in the contract has been fulfilled or cancelled or has expired.

Financial assets measured at fair value through profit or loss

This category includes any debt securities held for trading or measured at fair value through profit or loss at the time of initial recognition and any equity investments in entities other than subsidiaries, associates and joint ventures (if classified as measured at “fair value through profit or loss”).

Such assets are initially recognised at fair value. Attributable transaction costs are recognised in profit or loss when they are incurred. Fair value gains and losses are recognised in profit or loss.

Held-to-Maturity Financial assets

This category includes non-derivative financial instruments quoted in an active market that do not represent equity investments, which the company can and intends to hold until maturity. They are initially recognised at fair value as measured at the trade date, including any transaction costs; subsequently, they are measured at amortised cost using the effective interest rate method, net of impairment.

Impairment losses are calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate.

Loans and receivables

This category includes financial and trade receivables, including non-derivative debt securities, with fixed or determinable payments that are not quoted on an active market and that the Group does not originally intend to sell.

Such assets are initially recognised at fair value, adjusted for any transaction costs, and subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment losses. Such impairment losses are calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted at the original effective interest rate.

Trade receivables falling due in line with generally accepted trade conditions are not discounted.

Receivables relating to Energy Efficiency Certificates refer to contributions, which will be awarded by the Compensation Fund for the Electricity Sector for certificates in the Group's portfolio.

The related contributions, if they refer only to the targets for the year, are recorded under "Other revenues", otherwise they are discounted again and contribute to determine the result for the year in relation to achievement of annual targets.

Available for sale Financial assets

This category includes debt securities, equity investments in other entities (if classified as "available for sale") and financial assets that cannot be classified in other categories. These instruments are initially recognized at fair value and increased by potential transaction costs. After initial recognition, these instruments are recorded at fair value against items of other comprehensive income.

At the time of the transfer, accumulated gains and losses are reclassified from other comprehensive income to profit or loss.

Where there is objective evidence that such assets have suffered an impairment loss, the accumulated loss is recognised in profit or loss.

Such impairment losses, which cannot be subsequently reversed, are calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows discounted at the market interest rate for similar financial assets.

When the fair value cannot be reliably determined, these assets are recognised at cost adjusted for any impairment losses.

Cash and cash equivalents

This category is used to record cash and cash equivalents that are available on demand or at very short term, clear successfully and do not incur collection costs.

For the statement of cash flows, cash and cash equivalents comprise bank and post deposits and cash in hand.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. Trade payables falling due in line with generally accepted trade conditions are not discounted.

Financial liabilities

Financial liabilities other than derivatives are initially recognised at the settlement date at fair value net of directly attributable transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivatives, if any, are recognised at fair value and are designated as hedging instruments when the relationship between the derivative instrument and the hedged item is formally documented and the effectiveness of the hedge is high (based on a periodical assessment). Recognition of the result of measurement at fair value depends on the type of hedge accounting adopted.

When the derivatives are used to hedge the risk of changes in the fair value of hedged assets or liabilities (fair value hedge), any changes in the fair value of the hedging

instrument are recognised in profit or loss; likewise, adjustments to the fair values of the hedged assets or liabilities are also recognised in profit or loss.

When the derivatives are used to hedge the risk of changes in cash flows of hedged items (cash flow hedge), the changes in the fair value that are considered effective are recognised in other comprehensive income, and presented in a specific reserve in equity, and subsequently reclassified to profit or loss in line with the economic effects produced by the hedged transaction.

The ineffective portion of the fair value of the hedging instrument is directly recognised in profit or loss.

Changes in the fair value of derivatives that no longer qualify for hedge accounting under IFRS-EU are recognised in profit or loss.

Such instruments are recognised at the trade date.

Financial and non-financial contracts (where they have not already been measured at fair value) are assessed to determine whether they contain any embedded derivatives that need to be separated and measured at fair value. This analysis is conducted at the time the entity becomes party to the contract or when the contract is renegotiated in a manner that significantly changes the original associated cash flows.

Fair value is determined using the official prices for instruments traded on regulated markets. For instruments not traded on regulated markets fair value is determined by discounting expected cash flows on the basis of the market interest rate curve at the end of the reporting period and translating amounts in currencies other than the euro at period-end exchange rates.

6.6.10 Employee benefits

Liabilities related to employee benefits paid upon or after leaving employment in connection with defined benefit plans or other long-term benefits granted during the employment period are determined separately for each plan, using actuarial assumptions to estimate the amount of the future benefits that employees have accrued at the end of the reporting period. The liability is recognised on an accrual basis over the vesting period of the related rights. These appraisals are performed by independent actuaries. Following the adoption of IAS 19 (2011), actuarial gains/losses that emerge from this valuation are immediately recorded under other comprehensive income.

Where the Group shows a demonstrable commitment, with a formal plan without realistic possibility of withdrawal, to a termination before retirement eligibility has been reached, the benefits due to employees in respect of the termination are recognised as a cost and measured on the basis of the number of employees that are expected to accept the offer.

6.6.11 Provisions for risks and charges

Allocations to provisions for risks and charges are recognised when at the end of the reporting period there is a legal or implicit obligation towards third parties, as a result of a

past event, the settlement of which is expected to result in an outflow of resources whose amount can be reliably estimated. Where the effect is significant, allocations are determined by discounting expected future cash flows using a pre-tax discount rate that reflects the current market value of the cost of money in relation to time and, if applicable, the specific risks of the obligation. If the amount is discounted, the periodic adjustment of the present value due to the time value of money is recognised as a financial expense in profit or loss.

6.6.12 Contributions

Contributions, whether they are from public entities or third parties operating in the private sector, are recognised at fair value when it is reasonably certain that they will be received and that the conditions for their recognition will be met.

Contributions received for specific expenditures are systematically recognised among other liabilities in profit or loss over the period in which the related costs are incurred.

Public contributions (plant contributions) received for specific assets whose value is recognised among tangible and intangible assets are recognised among other liabilities in profit or loss over the amortisation/depreciation period of the assets they refer to.

Private contributions (connection fees, including property subdivision contributions) are recorded under a specific liability item in the statement of financial position and recognised in profit or loss in relation to the amortisation/depreciation period of the assets they refer to.

However, in consideration of the fact that the aforementioned contribution also contributes to the operating costs relating to the activity required for the realisation of the investment, it should be noted that the revenues percentage for contributions collected from customers to be allocated for the coverage of the aforementioned structural costs supplemental to the investment is fully recognised in profit or loss in the period in which the investment is made.

6.6.13 Revenues and costs

Revenues are recognised using the following criteria depending on the type of transaction:

- revenues from sales are recognised when the significant risks and rewards of ownership of the assets sold are transferred to the buyer and their amount can be reliably determined and collected;
- revenues from gas transport are recognized on an accruals basis and on the basis of tariffs and related caps pursuant to legal and AEEGSI provisions which are in force during the reporting period. It should be noted that, following the introduction of the new formula for recognition of gas transport revenues that was adopted as of 2009 – with the entry into force of Resolution ARG/gas no. 159/08 and substantially reconfirmed with AEEGSI Resolutions no. 573/13 and 367/14 - an equalization mechanism was created, allowing for the computation of revenues ascribable to the distribution company and as remuneration

of invested capital as well as determination of operating costs ascribable to the gas distribution and metering service, regardless of the distributed volumes;

- revenues from the rendering of services are recognised in line with the stage of completion of the services. Should it not be possible to reliably determine the value of the revenues, they are recognised up to the amount of the costs incurred expected to be recovered.

Costs are recognized when they refer to goods and services that were sold or consumed during the year or as a result of systematic allocation or when it is not possible to identify their future use.

6.6.14 Financial income and expenses

Financial income and expenses are recognized on an accruals basis and on the basis of interest accrued on the net value of the related financial assets and liabilities, by using the effective interest rate method.

6.6.15 Dividends

Dividends from equity investments are recognised when the right of the shareholders to receive the dividend payment is established.

The dividends payable to third parties are recognised as a change in equity on the date on which they are approved by the Shareholders' meeting.

6.6.16 Income taxes

Current income taxes for the year, recognised as "income tax payables" net of advances paid or as "income tax receivables" if the net balance is positive, are determined on the basis of the estimate of the taxable income and in accordance with the current fiscal regulations or the fiscal regulations essentially in force at the end of the reporting period.

Deferred tax liabilities and assets are calculated based on the temporary differences between the carrying amounts recorded in the financial statements and their corresponding values recognised for tax purposes by applying the tax rates effective on the date the temporary difference will be settled, based on the tax rates that are in force or essentially in force at the end of the reporting period.

Deferred tax assets are recognised when recovery is likely, i.e. when sufficient future taxable income is expected to be available to recover the assets.

Recoverability of deferred tax assets is re-examined at the end of each reporting period.

Taxes relating to components that are directly recognised in equity are also recognised in equity.

6.6.17 Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale rather than ongoing use are classified as held for sale and shown separately from the other assets and liabilities in the Statement of financial position. These non-current assets (or disposal groups) are initially recognised according to the appropriate IAS or IFRS that is applicable to each asset and liability and subsequently at the lower of their carrying amount and their fair value, net of selling costs. Any subsequent impairment loss is directly recognised against any non-current assets (or disposal groups) classified as held for sale and recognised through profit or loss. The relevant carrying amounts for the previous year are not reclassified.

A discontinued operation is a part of a business that has been sold or classified as held for sale and which:

- represents a significant branch or geographical area of activity;
- is part of a coordinated plan for the disposal of a significant branch or geographical area of activity or is a subsidiary that was purchased only to be resold.

Results of discontinued operations, whether they have been sold or classified as held for sale and in the process of being sold, are recognised separately in profit or loss, net of tax effects. The corresponding values for the previous year, if any, are reclassified and recognised separately in profit or loss, net of tax effects, for comparative purposes.

6.6.18 Recently issued accounting standards

Standards that have yet to be adopted and applied

In 2014, the European Union approved several new principles or interpretations whose application will become mandatory in years after 31 December 2014.

The principles or interpretations, which will enter into force as of 2015, include:

- the “Annual cycle of 2011 – 2013 improvements” which resulted in changes, essentially of a technical and formal nature, of international accounting principles;
- the IFRIC 21 interpretation “Taxes”, which provides criteria for identifying the time when tax liabilities should be accounted for. Tax liabilities can be recorded both progressively or at the time of occurrence of an event that results in the effective tax liability. The interpretation did not have effects on the financial statements.

The principles or interpretations, which will enter into force as of 2016, include:

- the “Annual cycle of 2010 – 2012 improvements” which resulted in changes, essentially of a technical and formal nature, of international accounting principles;
- amendments to IAS 19 “Employee benefits”, which supply clarifications on the accounting for contributions of employees or third parties associated with defined benefit plans.

It is expected that the application of the aforementioned principles and interpretations will not have significant effects on the financial statements.

In addition, IASB and IFRIC published new principles and interpretations, which, at 31 December 2014, were not yet ratified by the European Union. The main ones are set out below:

- IFRS 9 “Financial instruments”
- IFRS 15 “Revenue from contracts with customers”
- “Annual cycle of 2012 – 2014 improvements”
- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The Group is assessing the impact from the possible future application of the new provisions.

6.7 Notes to the income statement

6.7.1 Revenue

The transport of gas takes place exclusively within Italy.

5.a Revenue from sales and services –608,150 thousand Euro

This caption of € 608,150 thousand mainly refers to gas distribution activities and connection fees.

It can be described as follows:

Thousands of Euros	31.12.2014	31.12.2013	2014-2013
Sales and Services			
<i>Third parties:</i>			
Gas and LPG transportation	557,203	609,569	(52,366)
Provision for risks	10,573	(18,671)	29,244
Connection fees	14,031	14,914	(883)
Accessory fees	5,713	7,449	(1,736)
Revenue from the sale of water	3,181	4,145	(965)
Accessory services – water sector	558	868	(309)
Revenue from customer operations management	378	333	45
Revenue from sewerage/treatment	1,135	1,123	12
Other revenue and other sales and services	15,378	16,777	(1,398)
Total revenue from sales and services	608,150	636,507	(28,357)

Revenue from gas distribution total €557,203 thousand and mainly refers to the 2014 Allowed Revenues for the distribution of natural gas and LPG together with adjustments relating to previous years.

Revenue from gas distribution has been determined what issued by the Autorità per l'energia elettrica il gas e il sistema idrico (AEEGSI) of resolution 367/2014/R/gas which has finally clarified the calculation method of tariffs related to the fourth regulatory period.

The Group has been able to release the provision which had previously been allocated based on calculations obtained through the formula used under resolution ARG/gas no. 159/08.

During the year, another provision has been allocated –shown here net of the release – regarding the risk of tariffs modification on some concessions where part of the assets are owned by third parties.

Revenues from gas distribution show a decrease of about €34 million once taken out revenues related to adjustments of previous years and the impact on the different years of the accrual and release of the above mentioned provision.

The decrease is basically due to new calculation methods for the tariff revenues in the fourth regulatory period which began on the 1st of January 2014: after the change in some calculations, the Group, as all the other natural gas distributors, underwent a reduction of tariffs, due to be reduced in the next years thanks to a mechanism that rewards investment in a more timely manner.

Connection fees of € 14,031 thousand fell by € 883 thousand compared to those recorded in the same period of the previous year; this was caused by a slowdown of the economy that affected a good part of the reporting period, bringing in general a slowdown on investments on network.

As the previous year, the prepayments relating to these charges were calculated. Specifically, the connection fees are based on a specific quote related to the type of service requested and consists of:

- the cost of the material;
- personnel expenses;
- the percentage of coverage of general expenses.

The analysis undertaken allowed the company to separate the percentage of revenues for fees received from customers to be used to cover overhead costs which are accessory to the investment activity (around 22%) and therefore not to be deferred, from that to be attributed to capitalized costs which are therefore to be deferred on the basis of the length of the amortization period of the asset.

Revenue from the sale of water show a decrease of about €1,274 thousand, as the number of water concessions owned by the Group is narrowing.

“Other revenue and other sales and services” decreased €1,398 thousand mainly as a consequence of combined effect of the revenues related to the work to suspend and reactivate defaulting customers as requested by the sales companies and a reduction of the billing component related to the recovery of higher charges for concession fees.

5.b Other revenue – 86,173 thousand euro

“Other revenue” total €86,173 thousand (€93,315 thousand in the same period of 2013), down by €7,142 thousand and may be detailed as follows:

Thousands of euro

	31.12.2014	31.12.2013	2014-2013
Other revenues			
Revenues from energy efficiency certificates	61,013	64,140	(3,128)
Revenues from plant contributions	2,300	3,403	(1,103)
Contingent assets	3,231	3,005	226
Revenues from Resolution 120	10,088	9,261	827
Rental income	776	820	(44)
Capital gains from assets	3,456	4,729	(1,273)
Compensation for damages	1,042	339	703
Revenues from seconded personnel	972	416	556
Other revenues and income and services	3,295	7,178	(3,883)
Other revenues from the water business	0	24	(24)
Total other revenues	86,173	93,315	(7,142)

The decrease is mainly due to the smaller revenues, by €3,128 thousand, relating to TEE certificates (due to smaller amount of purchases during the year compared to previous reporting period, partially offset by an increase in tariff revenue), to the decrease of contributions on plants partially offset by revenues from the quality of gas distribution and metering services (Resolution no. 120/08 – previously Resolution 168/04), to smaller gains on sale of assets due to lack of tenders on concessions (€1,273 thousand) and to the relevant decrease of other revenue and income from services by €3,883 thousand due to last year presence in this item of revenues from default service.

It is worth to underline that the increase of revenue from the quality of gas distribution and metering services (Resolution no. 120/08 – previously Resolution 168/04), that has been keeping on also in 2014, confirms the attention of the Group to technical standard of our services. This result relies upon number of gas chromatography analyses undertaken by the distributor (a parameter which can be checked by the Company) and to the reduction in leaks on the distributor's plant (a parameter which cannot be directly regulated by the distributor without a continuous monitoring activity).

Contingent assets this year contain the effect of the transaction which closed EON Italia S.p.A. litigation on the reward of some price adjustments on Eon Rete participation which was acquired by 2i Rete Gas in 2011.

Revenue from energy efficiency certificates refer to the completion of the target for 2013 and the partial achievement of the specific energy saving target for 2014. It should be noted that, as of 2014 target.

As regards the target for 2014, at least 50% of the requested energy efficiency certificates must be cancelled by May 2015.

In this regard, it should be noted that the 2i Rete Gas Group, at the reporting date, sees no problems in achieving these targets in compliance with relevant laws and regulations.

5.c Revenue from development of distribution infrastructure – 144,622 thousand euro

Thousands of Euros			
	31.12.2014	31.12.2013	2014-2013
Revenue from intangible assets / assets under development			
Revenue from intangible assets / assets under development	144,622	116,436	28,186
Total revenue from intangible assets / assets under development	144,622	116,436	28,186

This revenue has been recognized since application, from 1 January 2010, of IFRIC 12 “Service concession arrangements”.

Revenue from intangible assets and assets under development represents the portion of revenue directly attributable to the development and the upgrading of gas distribution networks held under concession. Since it is not possible to identify in the existing tariff system a specific item relating to the network construction service, this revenue is estimated to be exactly the same as the costs incurred for the same scope; consequently, there is no impact in terms of gross profit.

6.7.2 Costs

As already noted, all costs recognized in accordance with IFRIC 12 are broken down by nature within the pre-existing cost captions.

The following table provides a summary of the items relating to the company operating costs in order to ensure their compliance with the aforementioned principle.

Thousands of euro			
	31.12.2014	31.12.2013	2014-2013
Costs relating to revenues from intangible assets / assets under construction			
Raw materials and consumables	5,047	3,178	1,869
Costs for services	82,331	75,982	6,349
Other operating costs	320	238	82
Raw materials, personnel expense capitalised	56,925	37,039	19,886
Total costs relating to revenues from intangible assets / assets under construction	144,622	116,436	28,186

6.a Raw materials and consumables – 42,745 thousand Euro

The costs of “Raw materials and consumables” and the changes thereto compared to the previous year are detailed below:

Thousands of euro

	31.12.2014	31.12.2013	2014-2013
Raw materials and consumables			
<i>Third parties:</i>			
Costs for the purchase of gas, water and lubricants	4,912	6,302	(1,390)
Stationery and printed materials	307	258	49
Various materials	38,847	24,038	14,809
(Change in inventories of raw materials)	(1,321)	1,355	(2,677)
Total cost for raw materials and consumables	42,745	31,954	10,791
- of which capitalised for intangible assets	32,661	18,991	13,670
- of which capitalised			

The costs of “Raw materials and consumables” essentially comprise the cost for the purchase of the materials used in the process of laying the pipes and the fuel for motor vehicles; compared to the previous year these costs increased by 10.791 thousand euro.

In detail, this relevant increase is due to the start of the changeover program from traditional gas meters to electronic gas meters, which began during the last months of the reporting period and will be carried on by the Group for the next 5 years.

6.b Services –226,609 thousand Euro

Costs for “Services” are broken down as follows:

Thousands of Euros

	31.12.2014	31.12.2013	2014-2013
Costs for services			
Maintenance, repair and construction of assets	78,870	74,883	3,987
Electricity, power and water	4,800	5,964	(1,164)
Gas (for internal use)	5,176	5,414	(238)
Telephone and data transmission	3,239	2,849	390
Insurance premiums	5,700	5,211	489
Services and other expenses relating to personnel	4,743	5,759	(1,016)
Fees	1,059	1,278	(219)
Legal and notary fees	617	179	438
Costs for company acquisitions and disposals	230	149	81
Personnel and other services	5,001	6,702	(1,701)
Advertising	164	119	45
IT services	8,607	12,282	(3,675)
Meter reading service	5,642	5,793	(151)
Audit fees	579	773	(194)
On call and emergency service	2,285	4,018	(1,733)
Plant certifications resolution no. 40	677	805	(128)
Gas transportation by third parties	1,610	1,610	(0)
Professional, consultancy and other services	7,952	5,887	2,065
Other services	8,177	6,146	2,031
Use of third party assets			
Leases	7,707	7,174	533
Rentals	10,516	5,691	4,825
Use of third party assets	3,049	2,563	486
C.o.s.a.p. (fee for occupation of public areas)	1,054	1,338	(283)
Municipal gas concession fees	59,152	62,610	(3,457)
Total	226,609	225,197	1,412
- of which capitalised as/under intangible assets	82,331	75,982	6,349

Costs for services (including the costs for the use of third party assets) is in line with the numbers of the previous year.

Coming to a more detailed analysis of single cost items, we show an increase in these components:

- costs for maintenance, repair and construction of assets for €3,987 thousand: during the period, the number of works on gas network has grown steadily in an ordinary course;
- Professional and consulting services costs, which increase by € 2,065 thousand thanks to the restructuring operations carried out during the year: debt restructuring and setup of the merger between 2i Rete Gas (previously F2i Reti Italia) with the controlled company;
- Other service costs, for 2,031 thousand euro also because the restructuring of company car policy which brought a considerable sale of owned cars shifting to a long term rent model.
- Rent from 2014 includes rental costs of all the necessary hardware that allows to manage all of the 2i Rete gas IT systems; the application map has been transferred during last year by winding up the service contracts with Enel Group. Savings from this operation are shown in Personnel and other services and IT costs which are analyzed hereunder.

On the other end, in these items we show a decrease:

- Electricity and water costs, thanks to new framework contracts with suppliers, decrease by 1,164 thousand euro;
- Services relating to personnel, because of a lower amount of business trips and a better management of catering service in 2014 by 1,016 thousand euro;
- Personnel and other services costs, related to Gas billing contracts and connected services that were active with Enel Group and were closed down in 2014 for 2,019 thousand euro; these costs have to be considered together with IT costs, which show a decrease for the same reason for 3,675 thousand euro;
- Immediate intervention service has a lower costs by 1,733 thousand euro following the internalization of our call center e optimization of this service in Italy which has been implemented during the first half of the year.
- municipal gas concession fees are diminishing by 3,457 thousand euro; this item, thanks to the positive effect con Tcol tariff component – enacted to reimburse exceeding costs for concession fees, is in line with the previous period.

6.c Personnel expense – 116,044 thousand Euro

Il costo sostenuto per il personale risulta così composto:

Thousands of euro

	31.12.2014	31.12.2013	2014-2013
Wages and salaries	83,780	81,518	2,262
Social security charges	26,491	25,772	719
Termination benefits	5,458	5,310	148
Asem/Fisde health service	(20)	47	(67)
Other personnel costs	335	147	188
Total personnel costs	116,044	112,793	3,250
- of which capitalised for intangible	29,311	21,226	8,085
- of which capitalised	20	878	(858)

Personnel expense of 116,044 thousand euro include all charges incurred on an ongoing basis which, directly or indirectly, concern employees. The item is increased by 3,250 thousand euro.

The table below shows personnel changes in the year by category.

	Managers	Junior managers	White collars	Blue collars	Total
Personnel at 31 December 2013	35	100	1,122	786	2,043
Change in consolidation area	0	1	4	8	13
Increase	0	4	62	1	67
Decrease	(2)	(8)	(66)	(73)	(149)
Promotions	0	9	(6)	(3)	0
Personnel at 31 December 2014	33	106	1,116	719	1,974

During the period, a voluntary redundancy scheme was created; a sizable acceptance has been recorded, coherently with the company strategic plans.

6.d Amortisation, depreciation and impairment losses – 150,953 thousand Euro

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to 150,953 thousand euro, up by 4,597 thousand euro compared to the previous year.

This change is mainly due to a increase in amortisation of intangible assets by 10,062 thousand euro and to an increase in depreciation of property, plant and equipment by 325 thousand euro. With the introduction of IFRIC 12, the amortisation of intangible assets mainly concerns the rights over concessions in which the Company manages the gas distribution networks.

During this year, following the new tariff ruling in relation to gas metering devices, both traditional and electronic, the Group changed accordingly the estimates upon which the amortisation plans of owned concessions are based.

Impairment losses, totalling 768 thousand euro include also impairment losses recognised on trade receivables

Unlike last year, the Group did not record massive impairment losses as the operating company did not act as “Default supplier”, a role that AEEGSI assigned to the company only on a limited time frame during 2013.

This item is broken down as follows:

Thousands of Euros			
	31.12.2014	31.12.2013	2014-2013
Depreciation	3,415	3,090	325
Amortisation	146,769	136,707	10,062
Impairment losses:			
- Impairment losses on intangible assets	415	1,438	(1,022)
- Allowance for impairment - trade receivables	353	5,120	(4,767)
	150,953	146,355	4,597

6.e Other operating costs – 91,917 thousand Euro

“Other operating costs” decreased by 3,211 thousand euro compared to last year and are broken down as follows:

Thousands of euro			
	31.12.2014	31.12.2013	2014-2013
Other operating costs			
Remuneration of statutory auditors and Compliance Committee	400	435	(35)
Remuneration of members of the Board of Directors	485	482	3
Association fees	437	417	20
Contribution to the Supervisory Authority	172	133	40
Compensation to customers	194	115	79
Municipal tax on property	460	456	5
CCIAA (chamber of commerce) fees and duties	399	514	(114)
Purchase of energy efficiency certificates	53,769	66,622	(12,853)
Tax on the occupation of public space (Tosap)	1,840	1,507	332
Capital losses on the disposal of assets	4,938	2,611	2,326
Capital losses on the sale of assets	401	915	(514)
Local and sundry taxes	755	834	(78)
Difficulties in checks pursuant to Resolution no. 40	57	29	27
Other costs	1,507	1,512	(5)
(Net) provision for risks and charges	26,102	18,547	7,556
Total other operating costs	91,917	95,128	(3,211)
- of which capitalised for intangible assets	320	238	82

The decrease in other operating costs is mainly attributable to:

- lower costs for the purchase of energy efficiency certificates for the target for 2013 and 2014 target by 12,853 thousand euro, mainly due to lower purchase volume of certificates during the period, partially offset by the increase in averages purchase costs;
- higher losses on disposal of assets for 2,326 thousand euro, partially because of the changeover activity on traditional metering systems to install electronic ones, and lower losses from sale of assets by 514 thousand di euro due to concession tenders standstill;
- higher risk provision for 7,556 thousand euro, due to the net effect of the release of provisions made essentially to take into account the risk of a review of some tariff components and the provision allocated to take into account the risk of tariff change on plants that are not completely owned by the Group, as well as new legal disputes which arose during the year, and whose outcome is not clear. The breakdown of the related provisions is provided in the comment on liabilities recognized in the statement of financial position

6.f Internal work capitalised – Euro 20 thousand

The item only includes those residual costs which can be capitalized but do not concern concessions.

Compared to 2013, the item decreased by 858 thousand euro:

Thousands of euro			
	31.12.2014	31.12.2013	2014-2013
Internal services	20	878	(858)
Total capitalised costs for internal work	20	878	(858)

7. Income (expense) from equity investments – 43 thousand Euro

This item includes income from equity investments in associates and other companies.

8. Financial income/(expense) – (201,161) thousand Euro

In detail:

Thousands of Euros

	31.12.2014	31.12.2013	2014-2013
Financial income			
- Default interest income	219	299	(80)
- Interest income on bank and postal accounts	585	730	(145)
- Interest income on trade receivables	664	311	353
- Other interest and financial income	26	20	6
Total income	1,494	1,360	134
Financial expense			
- Interest expense on non-current loans	64,319	72,178	(7,859)
- Other expense on non-current bank loans and borrowings	2,944	2,385	559
- Financial expense on Bonds	14,809	-	14,809
- Financial expense on derivatives	13,034	25,971	(12,937)
- Discounting of post-employment and other employee benefits	1,165	1,166	(1)
- Interest on taxes	429	9	420
- Fair value losses on IRS	39,952	-	39,952
- Fair value losses on hedging derivatives reclassified to comprehensive income	65,726	-	65,726
- Other financial and interest expense	278	267	11
Total expense	202,656	101,976	100,680
NET FINANCIAL EXPENSE	(201,161)	(100,616)	(100,545)

Net financial expense of 201,161 thousand euro was largely due to the recognition of the winding up of previous financing that was enacted in order to proceed with the issuing of the bonds that allowed the Group to reach a cost of money and a lengthening of debt duration of great convenience compared to the preceding situation.

On the whole, the winding up of derivatives that were active as of July 2014, had an effect on the Income Statement of 105,678 thousand euro (which were already partially shown in previous annual reports in the Other Comprehensive income table). The amortized cost related to the previous financing has to be summed to this effect, as the company had to recognize in Income Statement following the winding up of the contract 17,266 thousand euro.

It is worth mentioning that the actual debt structure of the Group is almost entirely based on fixed rate, thanks to the issued bonds, at the same time lengthening debt duration and lowering to less than a half the cost of debt, putting the Group in the right position to face the demanding period of ATEM tenders with new financial resources and a more solid asset structure.

It is still available, even if it was not utilized, the so-called "revolving" facility for cash needs for 100 million euro and the capital expenditure facility for 300 million euro, which was not utilized as of the date of reporting.

9. Income taxes – (2,461) thousand Euro

This item is broken down as follows:

Thousands of Euros	31.12.2014	31.12.2013	2014-2013
Current taxes			
Current income taxes: IRES	54,132	74,376	(20,243)
IRES substitute tax	12,479	-	12,479
Current income taxes: IRAP	15,846	18,876	(3,030)
Total current taxes	82,457	93,252	(10,795)
Adjustments for prior year income taxes			
Negative adjustments for prior year income taxes	1,174	1,609	(435)
Positive adjustments for prior year income taxes	(1,173)	(4,287)	3,114
Total adjustments for prior year income taxes	1	(2,677)	2,679
Deferred taxes			
(Use)/recognition of deferred tax liabilities	(10,135)	(7,494)	(2,641)
Use/(recognition) of deferred tax assets	(74,784)	(13,711)	(61,073)
<i>Deferred taxes for the period</i>	<i>(84,919)</i>	<i>(21,204)</i>	<i>(63,715)</i>
Adjustments to prior year deferred tax liabilities due to tax rate change	-	-	-
Adjustments to prior year deferred tax assets due to tax rate change	-	-	-
<i>Adjusted deferred taxes</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total deferred taxes	(84,919)	(21,204)	(63,715)
TOTAL INCOME TAXES	(2,461)	69,370	(71,831)

Income taxes for 2014 are positive for 2,461 thousand euro.

They refer to:

the recognition of costs for current taxes in the year, including IRES amounting to 54,132 thousand euro (also including the corporate income tax surcharge known as Robin Hood Tax, equal to 6.5% in 2014) and IRAP amounting to 15,846 thousand euro, as well as the effect of the substitution tax paid by 2i Rete Gas in order to render tax deductible the goodwill generated by G6 rete Gas participation, following 2013 merger.

It is worth remind that positive effects on taxation will be visible from next reporting period, one tenth of goodwill each year.

Net adjustments for income taxes relating to previous years, which totalled (2,677) thousand euro in the previous year, in the current year totalled 1 thousand euro; these adjustments arose following the final calculation of taxes to be paid in June 2014,

The effective IRES rate for 2014 is not significant, as it is largely biased by the allocation of deferred tax assets due to the abovementioned substitution tax on goodwill during the year and deferred deductibility of financial losses.

For the notes on deferred tax assets and liabilities, reference should be made to the relevant section of the notes to the Statement of financial position.

The following table shows the reconciliation of the effective and theoretical tax rates, determined by applying the tax rate in effect during the year to profit before taxes:

Thousands of euro	SUB- CONSOLIDATION PERIMETER 2I RETE GAS	2I RETE GAS (FORMER F2I RETI ITALIA) STAND ALONE
	31.12.2014	31.12.2014
Income before taxes	23,879	(11,083)
Theoretical IRES taxes - 2014: 34%	8,771	(3,048)
Lower taxes:		
- release of contributions taxed in prior years	(1,264)	
- use of provisions	(3,206)	
- release of provisions	(6,668)	
- reversal of statutory amortisation/depreciation not deducted in prior years	(2,071)	
- deducted tax amortisation	(551)	
- deductible interest expense for previous years	0	
- capital gains by instalments	(24)	
- dividends recognized on an accrual basis and not yet received	0	
- other	(6,154)	
Higher taxes:		
- write-downs for the year	142	
- allocations to provisions	12,580	
- amortisation/depreciation on amounts that are not recognised for tax purposes	2,901	
- statutory amortisation/depreciation exceeding the fiscal limits	14,909	
- reversal of excess fiscal amortisation/depreciation deducted in prior years	1,536	
- capital losses on the disposal/sale of assets	227	
- capital gains by instalments	2,804	
- partially deductible costs	890	
- connection fees	21	
- taxes	0	
- ineductible finance expenses		2,114
- 5% of received dividends (already recognized in previous year on an accrual basis)		1,388
- other	29,168	(101)
ACE		(233)
Total current income taxes (IRES)	54,013	119
IRAP - Year 2014: 2I RETE GAS 4,58%; 2IRETE GAS (GIA' F2IRI) 5,57%	15,846	0
Total deferred taxes	(80,049)	(3,403)
TOTAL INCOME TAXES	(10,190)	(3,283)

10. Discontinued operation – 0

Profit or loss from discontinued operations was zero, as in the previous year, since no asset was classified in the financial statements for the year as “Discontinued”.

6.8 Information on the Statement of Financial Position

6.8.1 Assets

Non-current assets

11. Property, plant and equipment – 40,825 thousand Euro

It should be recalled that, following the introduction of IFRIC 12, property, plant and equipment contains solely those assets which are not tied to gas distribution concessions. Such assets are now regarded as intangible.

The breakdown and changes in property, plant and equipment in 2014 are shown below:

Thousands of Euros	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Leasehold improvements	Non-current assets under constructions and payments on account	Total
Historical cost	14,673	35,602	3,448	21,170	41,264	9,277	335	125,770
Accumulated depreciation	-	(23,354)	(3,168)	(18,931)	(38,784)	(7,034)	-	(91,270)
Balance at 31.12.2013	14,673	12,248	281	2,238	2,481	2,243	335	34,499
Increases following changes to the consolidation scope:	-	-	-	63	12	-	-	75
Investments	-	105	112	642	6,038	314	2,673	9,883
Entry into service	-	138	-	-	-	179	(317)	-
Decreases	-	-	(214)	-	(5)	-	-	(218)
Reclassifications	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-
Depreciation	-	(1,055)	(70)	(704)	(947)	(638)	-	(3,415)
Total changes	-	(812)	(172)	0	5,098	(145)	2,356	6,325
Historical cost	14,673	35,845	112	21,947	46,206	9,770	2,691	131,244
Accumulated depreciation	-	(24,409)	(3)	(19,708)	(38,627)	(7,672)	-	(90,420)
Balance at 31.12.2014	14,673	11,436	108	2,239	7,579	2,098	2,691	40,825

The item at 31 December 2014 rose compared to 31 December 2013 by 6,325 thousand euro; this growth was due to the net balance of contribution from change in consolidation perimeter for 75 thousand euro, investments for 9,883 thousand euro, disposals for 218 thousand euro and depreciation for 3,415 thousand euro.

The investment made in property, plant and equipment is broken down as follows:

Thousands of euro	31.12.2014	31.12.2013
Increases for internal services	20	-
Increases for materials	-	191
Increases for external acquisitions/services	9,863	3,357
Total	9,883	3,548

Increase in "Other Assets" is almost completely related to investments on new data centers that were setup by the Group in anticipation of the switch-over from Enel systems to in-house systems, which was effective at the end of the reporting period.

Asset under construction were increased by the investment in new main corporate offices and territorial ones; they are planned to be utilized in the first months of 2015.

12. Intangible assets –2,765,276 thousand Euro

It should be recalled that, following the introduction of IFRIC 12, intangible assets also include those assets which are tied to gas distribution concessions.

The breakdown and changes in intangible assets in 2014 are shown below:

Thousands of Euros	Industrial patents and intellectual property rights	Concessions and similar rights	Concessions and similar rights - Assets under development and payments on account	Assets under devop. and payments on account	Other	Goodwill	Total
Historical cost	83,748	4,985,294	12,001	1,754	50,364	151,458	5,284,618
Accumulated amortisation	(63,526)	(2,421,662)	0	0	(39,026)	(8,503)	(2,532,717)
Balance at 31.12.2013	20,223	2,563,631	12,001	1,754	11,338	142,955	2,751,901
Increases following changes to the consolidation scope:	0	5,973	0	0	10	19	6,002
Investments	4,333	135,247	9,510	1,233	15,255	0	165,577
Entry into service	0	12,223	(12,223)	(793)	793	0	0
Decreases	0	(11,019)	(1)	0	0	0	(11,020)
Reclassifications	(1,112)	0	960	(960)	1,112	0	0
Impairment losses	0	(415)	0	0	0	0	(415)
Amortisation	(7,928)	(134,501)	0	0	(4,340)	0	(146,769)
Total changes	(4,707)	7,508	(1,754)	(521)	12,831	19	13,375
Historical cost	86,661	5,067,685	10,246	1,233	67,844	151,476	5,385,146
Accumulated amortisation	(71,146)	(2,496,546)	0	0	(43,675)	(8,503)	(2,619,870)
Balance at 31.12.2014	15,515	2,571,139	10,246	1,233	24,169	142,974	2,765,276

Intangible assets increased by 13,375 thousand euro compared to 31 December 2013; this increase is due to the net balance among contribution from changes in consolidation perimeter by 6,002 thousand euro, new investments of 165,577 thousand euro, decreases totalling 11,020 thousand euro, impairment losses of 415 thousand euro and amortisation of 146,769 thousand euro.

The net decrease in the item "Patent and intellectual property rights" by 4,707 thousand euro, refers to investments for 4,333 thousand euro, to reclassifications under the "Other intangible assets" item and to amortisation (7,928 thousand euro).

Investments in the year of 4,333 thousand euro mainly concern the upgrading of the IT systems and software licenses acquired by the Group.

The item "Concessions and similar rights" totalled 2,563,631 thousand euro as intangible assets in 2013; in this year, 2,571,139 thousand euros are categorized as intangible assets, of which 5,973 thousand euro come from the contribution from Genia Distribuzione, that is parte of the Group since June 2014; these assets represent the recognition of the rights the Group has in its quality of concessionaire and gas service operator, as well as one-off fees deriving from the acquisition of concessions in natural gas distribution.

The amortisation of the charges linked to the concessions has been determined on a straight-line basis and on the basis of the realizable amount estimated at the end of the concession.

Duration of concessions is measured using the same criteria adopted in the previous year.

Amortisation is calculated based on the realisable amount estimated at the end of concession, where applicable. For concessions which have expired at the end of the reporting period and therefore are operating in an extension regime (*prorogatio*), the residual amount has been restated to take into consideration the postponement of the effective expiry of these concessions.

It should be recalled in particular that pursuant to the Ministry of Economic Development's Decree of 19 January 2011 - "The local areas in the natural gas distribution sector" which came into force on 1 April 2011, according to art. 3, paragraph 3 of the Decree "as from the coming into force of this provision the tenders for the assignment of the gas distribution service, as provided for by art. 14, paragraph 1, of Legislative Decree no. 164 of 23 May 2000, for which the call for tender has not been published or for which the deadline for submitting offers has not expired, are awarded solely for the local areas established in Annex 1 forming an integral part of this provision" and that, in compliance with art. 14, paragraph 7 of Legislative Decree no. 164/2000, "the outgoing operator, pursuant to art. 14, paragraph 7, of Legislative Decree no. 164 of 23 May 2000, in any case remains under obligation to continue managing the service until the start date of the new assignment."

The item "Assets under development and payments on account", totaling 2,193 thousand euro, mainly consisted of costs for development of software in order to guarantee a better and more timely management of the Group.

The entry into service affected this item for 793 thousand euro, while investments were affected by 1,233 thousand euro.

The item "Other intangible assets" amounted to 24,169 thousand euro, refers to miscellaneous deferred costs and includes, among others, costs which can be capitalised for the information systems insourcing process which was setup at the end of the reporting period, as well as costs pertaining to the implementation of remote reading of electronic metering systems.

The "Goodwill" item totalled 142,974 thousand euro and relates to the deficit from the consolidation of former subsidiaries. The recognition of the item took place with the agreement of the Board of Statutory Auditors.

This year increase by 19 thousand euro relates to the acquisition of controlling interest in Genia Distribuzione S.r.l., signed on 26th of June 2014 for a consideration of 5,292 thousand euro, representing the *fair value* of acquired assets, mainly related to the evaluation of concession rights of the company.

The estimate of the recoverable amount of goodwill recorded in the financial statements is based on the Discounted Cash Flow model which, in order to assess the fair value of an asset, requires the calculation of estimated cash flows and the utilization of an appropriate actualization rate. In particular, the cash flows were considered over an explicit period of 10 years and are consistent with 2i Rete Gas Group business plan which was approved by the Board of Directors on 19th of September 2014 prepared on the basis of going concern assumptions, adding a Terminal Value calculates with the perpetual return.

Duration of concessions owned by the Group as well as the typical time frame in gas distribution sector and the structure of the formula that is used by the Authority to reward the net invested capital of gas distribution companies, make the choice of utilizing an explicit period of 10 year in general the most appropriate in order to analyze cash flows from operations.

Within this framework, the two principal assumptions are:

A going concern assumption related to concession agreements, as the definition of local areas due to area tenders will be a clear opportunity to see an enlargement of its role in the competitive market, given its economic strength, available financial facilities and primary positioning in a market that is going to shrink;

Constant management of end consumers, with the assumption of in-house growth only on existent networks in a percentage that is comparable to what has been done in the market in recent years.

Hereunder besides the discount rates and explicit period in which the Group actualizes its cash flows, is the growth rate of Group Terminal Value.

Tax Rate	WACC (1)	Explicit cash flow period	TV (g) growth rate
31.4% (2)	5.60%	2015 - 2024	1.50%

(1) WACC post-tax is the average cost of capital in the sector

(2) IRAP + IRES rate

The estimate of the recoverable amount calculated as stated is higher than the Net Invested Capital recognized in the balance sheet.

Recoverability of net invest capital has been also confirmed by a sensitivity analysis by simulating possible changes in key assumptions of the business plan used to execute the impairment test.

In particular, simulation of a worst case scenario was made by changing cash flows value in the plan. Coeteris paribus, the analysis demonstrated that in order to reach equilibrium value (utilization value of assets equal to net invested capital) such negative changes in the plan would be required that the cash flows would be reduced by about 25%, a number that is deemed to be significantly higher than what it is considered possible by the Group.

13. Net Deferred tax assets – 113,227 thousand Euro

Deferred tax assets and deferred tax liabilities are determined on the basis of the tax rates in force at the reporting date. Deferred tax assets totalled 257,408 thousand euro (202,796 thousand euro as of 31.12.2013), while deferred tax liabilities totalled 144,181 thousand euro (153,944 thousand euro as of 31.12.2013).

Deferred tax assets and liabilities at 31 December 2014 were determined, for the companies of 2i Rete Gas Sub-consolidation perimeter, applying the following tax rates: for IRES 34% and for IRAP 4,58% (versus 4,56% of previous year). 2i Rete Gas (former F2i Reti Italia) applied ordinary IRES rate equal to 27,5% and IRAP of 5.57%.

It is worth to underline that, according to IAS 12 Tax, the Group did not take into account the effects of the Corte Costituzionale ruling which, in February 2015, decided upon constitutional unlawfulness of the so-called Robin Hood Tax, as the resulting change in the applicable tax rate was enacted after 31 December 2014, reporting date of this report. It is worth mentioning that the absence of Robin Hood Tax would have had the effect on deferred net tax asset as of 31 December 2014 by about 22,9 million euro.

Deferred tax assets show a net increase of 54,612 thousand euro compared to last reporting period. This change is mainly due to increase during the period by 91,861 thousand euro (mostly coming from substitutive taxation on goodwill deriving from G6 rete Gas Acquisition for 30,093 thousand euro and the effect on tax assets of extraordinary financial charges by 27,803 thousand euro, and to decrease and other movements for 37,323 thousand euro (on this amount, 22,369 thousand euro come from the release of tax assets due to unwinding of derivatives that were active during the past year and, for 8,294 to other movements due to release of provisions) and lastly to adjustments for 74 thousand euro to increase of tax assets allocated in 31.12.2013, compared to what was determined in income tax return.

In light also of the flows set forth in the most recent business plans, it is believed that the Group can use deferred tax assets in the ordinary course of its business.

Deferred tax liabilities decreased by 9,764 thousand euro compared to the previous year. This change was due to net decreases in the year by 9.886 thousand euro as well as to adjustments (122 thousand euro) to increase the deferred taxes recognised in the financial statements at 31 December 2013 compared to the income tax return.

The table below details changes in deferred tax assets and liabilities by type of temporary difference, determined according to tax rates in force, and the portion of recoverable and non-recoverable deferred taxes.

Thousands of Euros	At 31.12.2013	Adjust. to UNICO tax form	At 01.01.2014	Increases following changes to the consolidation scope:	Increases recognised in		Decreases recognised in		Other changes	Balance at 31.12.2014	
					Profit or loss	Equity	Profit or loss	Equity			
Deferred tax assets:											
accruals for risks and charges, deductible	14,747	(44)	14,703	0	11,710	0	(75)	0	(6,281)	20,056	
accruals for exit and stock options	2,285	0	2,285	0	88	0	(1,630)	0	0	744	
accruals for disputes	6,003	(311)	5,692	0	1,619	0	(1,165)	0	(817)	5,330	
accruals for inventory obsolescence	4,437	(11)	4,427	0	125	0	(225)	0	25	4,352	
impairment losses, deferred deductibility (allowance for impairment)	4,282	(0)	4,282	4	5	0	0	0	0	4,292	
impairment losses, deferred deductibility (impairment losses on plant)	2,437	(10)	2,426	0	160	0	0	0	3	2,590	
amortisation and depreciation, deferred deductibility	84,345	493	84,838	0	14,912	0	(1,777)	0	(1,278)	96,695	
separation of land/buildings and component analysis	128	0	128	0	5	0	(0)	0	11	144	
start-up costs	2,984	(14)	2,970	0	0	0	0	0	1	2,971	
post-employment and other employee benefits	1,083	1,628	2,712	0	1,112	0	(483)	0	(0)	3,340	
taxes and duties deductible on a cash basis	16	0	16	0	0	0	0	0	0	16	
income deferred taxation (connection fees)	48,319	(47)	48,272	0	21	0	(1,398)	0	39	46,934	
expenses deductible in future years	1,702	(1,611)	91	0	57,946	0	(4)	0	0	58,032	
goodwill	1,531	0	1,531	0	0	0	0	0	2	1,533	
post-employment benefits - OCI	1,008	0	1,008	0	0	1,849	0	0	0	2,857	
derivatives (in case of net decreases in the specific equity reserve)	22,369	0	22,369	0	0	0	0	(22,369)	0	-	
losses that can be offset in subsequent years			0	32	15		0			48	
other consolidation adjustments			0	16	0	2	(1)	0	0	17	
advance tax assets in 2i Rete Gas (former F2i Reti Italia)	5,120		5,120	0	2,239		(109)		209	7,459	
	202,796	74	202,869	53	89,958	1,851	(6,868)	(22,369)	(8,085)	257,408	
Deferred tax liabilities:											
differences related to property, plant and equipment and intangible assets – additional depreciation and amortisation	38,915	621	39,536		562	0	(1,349)	0	(246)	38,503	
differences related to intangible assets - goodwill	1,451	(193)	1,258		0	0	0	0	(0)	1,258	
separation of land/buildings and component analysis	5,172	0	5,172		0	0	0	0	6	5,178	
allocation to assets of merger costs	39,413	26	39,439		0	0	(2,474)	0	49	37,014	
tax-only deductions relating to impairment on interests, receivables and assets under construction	0	0	0		0	0	0	0	0	-	
post-employment benefits	1,257	0	1,257		0	0	0	0	(0)	1,257	
income deferred taxation	6,849	(21)	6,828		0	0	(2,804)	0	2	4,026	
other...	0	0	0		0	0	0	0	0	-	
ASEM - OCI	3,775	(311)	3,464		52	0	(352)	0	20	3,184	
deferred taxes recognised in connection with the merger	46	0	46		0	0	0	(46)	0	0	
other consolidation adjustments	23,726	0	23,726		74	0	(467)	0	(116)	23,217	
on other consolidation changes	8,551		8,551				(351)			8,200	
deferred tax liabilities in 2i Rete Gas (former F2i Reti Italia)	24,788		24,788		(2,025)		(716)		295	22,343	
	Total	153,944	122	154,066	(1,336)	0	(8,513)	(46)	9	144,181	
	Net tax assets	48,851	(48)	48,803	53	91,294	1,851	1,644	(22,323)	(8,094)	113,227

14. Equity investments –3,329 thousand Euro

The following table shows the changes in the year for each equity investment, with the corresponding amounts at the beginning and end of the year, as well as the list of equity investments held in other companies.

Thousands of Euros	Historical cost	(Impairment losses)/Reversals of impairment losses	Carrying amount	% of investment	Increases following changes to the consolidation scope	Changes in 2014				Historical cost	(Impairment losses)/Reversals of impairment losses	Carrying amount	% of investment
						Acquisitions	Disposals	Other decreases	Adjustments				
			at 31.12.2013					at 31.12.2014					
Associates													
Equity accounted													
Melegnano Energia Ambiente S.p.A.	2,266	185	2,451	40.00%		0	0	0	0	2,266	185	2,451	40.00%
Cbl Distribuzione S.r.l.	320	40	360	40.00%		0	0	0	0	320	40	360	40.00%
Other companies													
Measured at cost													
Interporto di Rovigo S.p.A.	42	0	42	0.30%		0	0	0	0	42	0	42	0.30%
Fingrandà S.p.A.	26	0	26	0.58%		0	0	0	0	26	0	26	0.58%
Agenzia di Pollenzo S.p.A.	68	(35)	33	0.27%		0	0	0	0	68	(35)	33	0.28%
Industria e Università S.r.l.	11	0	11	0.10%		0	0	0	0	11	0	11	0.10%
FISAP (wound up)	19	(19)	0	0.00%		0	0	0	0	0	0	0	
Azienda Energetica Valtellina Valchiavenna S.p.A.	405	0	405	3.37%		0	0	0	0	405	0	405	3.37%
Terme di Offida S.p.A.	1	0	1	0.19%		0	0	0	0	1	0	1	0.19%
Asogas s.p.A. in liquidazione	0		0			0	0	0	0	0	0	0	9.00%
TOTAL EQUITY INVESTMENTS	3,157	171	3,329		0	0	0	0	0	3,138	191	3,329	

The following tables show the list of equity investments in other companies at 31 December 2014:

B) Associates	Registered office	Share/quota capital (Euro)	Equity (Euro)	Revenue (Euro)	Profit/(loss) for the latest year (Euro)	Reporting date	% of investment	Carrying amount (Euro)
Melegnano Energie Ambiente S.p.A. CBL Distribuzione S.r.l.	Melegnano (MI)	4,800,000	6,127,563	5,842,628	217,804	31.12.2013	40.00%	2,451,467
	Mede (PV)	170,000	900,188	2,973,273	106,112	31.12.2013	40.00%	360,075

Infine le partecipazioni in altre società alla stessa data:

C) Other companies	Registered office	Share/quota capital (Euro)	Equity (Euro)	Revenue (Euro)	Profit/(loss) for the latest year (Euro)	Reporting date	% of investment	Carrying amount (Euro)
Interporto di Rovigo S.p.A.	Rovigo	8,575,489	6,891,719	1,642,120	(246,955)	31.12.2013	0.30%	41,634
Fingrandia S.p.A.	Cuneo	2,662,507	2,500,368	48,594	(189,172)	30.06.2013	0.58%	25,822
Agenzia di Pollenzo S.p.A.	Bra (CN)	24,319,920	24,897,102	937,109	31,430	31.12.2013	0.28%	33,082
Industria e Università S.r.l.	Varese	14,005,000	10,877,836	-	(31,786)	31.12.2013	0.10%	10,989
Azienda Energetica Valtellina Valchiavenna S.p.A.	Tirano (SO)	1,803,562	18,032,762	9,551,172	1,485,227	31.12.2013	3.37%	405,000
Terme di Offida S.p.A.	Offida (AP)	277,029	151,171	-	(33,666)	31.12.2013	0.19%	548
Asogas s.p.a. in liquidazione	Amandola (FM)	104,000	(136,743)	-	(16,364)	31.12.2013	9.00%	-

15. Non-current financial assets – Euro 7,993 thousand

This Item mainly consists of accrued income related to financing facilities that have been granted and have not been utilized as of 31 December 2014; moreover, it contains an interest-bearing loan granted to the General Director, with a rate calculated on the base of 12 month Euribor + 4.50%, with a termination date by 31 January 2021 and compounding mechanism of interest income, and, for 43 thousand euro, interest income as of 31 December 2014.

16. Other non-current assets – Euro 23,779 thousand

This item increased compared to 31 December 2013 by 17,244 thousand euro; it is broken down as follows:

Thousands of euro	31.12.2014	31.12.2013	2014-2013
guarantee deposits	3,118	3,066	53
receivables for plant contributions	1,234	1,234	-
tax receivables reimbursements applied for	821	821	-
prepaid promotional expenses	232	309	(77)
Receivables for asset disposal from Municipalities	17,299		17,299
other non-current assets	1,222	1,252	(30)
bad debt provision	(147)	(147)	-
Total	23,779	6,535	17,244

Guarantee deposits totalled 3,118 thousand euro, and refer to receivables for work to be done on distribution plant and user.

The 1,234 thousand euro contribution receivables refer to recognition of the non-current portion of grants related to assets.

Tax credit reimbursements applied for (821 thousand euro) refer to the reimbursement claim as for art. 6 of Law Decree no. 185/2008 (Deduction from IRES of part of the IRAP pertaining to personnel expense and interest).

Prepayments of 232 thousand euro, include prepaid promotional expenses incurred in previous years and in 2014.

Receivables from municipalities for asset disposal following concession expiration show an amount of 17,299 thousand euro and is the result of receivables that are in discussion in legal disputes with Municipalities in order to obtain to estimated value of reimbursement as leaving operator for some concessions that were handed over in the last years. As the recovery procedures have become particularly lengthy, both because of the activation of arbitration procedures and legal disputes, the Group has reclassified these receivables as non-current assets in 2014.

Current assets

17. Inventories –7,794 thousand Euro

Closing inventories of raw materials rose compared to the previous year by 1,450 thousand euro.

In detail, closing inventories of raw materials, ancillaries and consumables mainly consist of materials for construction and maintenance of gas and water distribution plant, in particular new electronic gas meters.

The item includes the allowance for the write-down of inventories equal to 345 thousand euro. The allowance was set up to take into account inventories with unlikely future use.

The cost method adopted is weighted average purchase cost.

18. Trade receivables – Euro 213,622 thousand

Trade receivables amounted to 213,622 thousand euro and, compared to 31.12.2013, are down by 70,682 thousand euro.

The breakdown is set out below:

Thousands of Euros

	31.12.2014	31.12.2013	2014-2013
Third party customers:			
Trade receivables	229,987	301,477	(71,490)
- Allowance for impairment	(16,365)	(17,174)	808
Total	213,622	284,304	(70,682)

Receivables due from third-party customers consist of trade receivables and receivables from operations and include receivables essentially relating to gas distribution and to the invoicing of water sales.

Receivables due from third-party customers are recognized net of a 16,365 thousand euro allowance for impairment, compared to 17,174 thousand euro at the beginning of the year. Changes in the allowance for impairment are set out below.

Thousands of Euros

	31.12.2014	31.12.2013	2014-2013
Opening balance	17,174	12,512	4,661
Increases following changes to the consolidation scope	20		20
Accruals	1,208	5,129	(3,921)
Releases	(855)	(1)	(854)
Utilisation	(1,182)	(467)	(715)
Closing balance	16,365	17,174	(808)

The allowance for impairment at 31 December 2014 was taxed for 11,646 thousand euro (11,646 thousand euro at 31 December 2013).

All the Company's operations are in Italy.

19. Current loan assets – Euro 957 thousand

Current loan assets of 957 thousand euro, consisted of loan assets due from Gestore dei Mercati Elettrici. These are deposits made to be able to take part in the trade of Energy Efficiency Certificates. Compared to the previous year, there was decrease of 4,712 thousand euro due to lesser activity on the market towards the end of the period.

20. Other current financial assets – Euro 26 thousand

Other current financial assets include accrued income for bank interest income as of 31.12.2014.

21. Cash and cash equivalents – Euro 108,506 thousand

Cash and cash equivalents decreased by 38,604 thousand euro; this change is attributable to net effect of lower cash deposits on bank accounts by 38,540 thousand euro, lower post office deposits for 105 thousand euro and higher cash in hand for 41 thousand euro.

Cash and cash equivalents are broken down as follows:

Thousands of euro			
	31.12.2014	31.12.2013	2014-2013
Bank deposits	108,002	146,541	(38,540)
Post office deposits	330	436	(105)
Cash in hand	174	133	41
Total	108,506	147,110	(38,604)

Operating cash is held in bank and post office deposits.

22. Income tax assets – Euro 21,699 thousand

Income tax assets total 21,699 thousand euro and are composed by 1,258 thousand euro of 2i Rete Gas (former F2i Reti Italia) receivables generated by IRES reimbursements coming from the ductibility of IRAP paid on labour cost by 2i Rete Gas and by 20,441 thousand euro of IRES receivables from tax office by 2i Rete Gas Group companies, 17,253 thousand euro of which for IRES and 3,188 for IRAP.

Compared to last year they show a decline of 14,931 thousand euro.

It is worth reminding that on 17 June 2013 the participation to the national tax consolidation regime has been renewed for a three year period (2013 – 2015).

These are the companies part of the tax consolidation regime:

Fiscal consolidation perimeter		
Company	Name	Fiscal ID
Holding company	2i Rete gas S.p.A. (già F2i Reti italia)	06724610966
Controlled company	2i Rete Gas S.p.A.	00736240151
Controlled company	Italcogim Velino S.r.l.	06162020967
Controlled company	Italcogim Trasporto S.r.l.	06474580963
Controlled company	GP Gas S.r.l.	07832770155

23. Other current assets – Euro 163,139 thousand

Other current assets rose compared to 31 December 2013 by 25,993 thousand euro; the increase was mainly the net result of::

- an increase in amounts due from the Compensation Fund for 42,277 thousand euro owing to the trend in invoicing in 2014 given a VRT (tariff revenue cap) which has already been defined. I crediti verso Cassa Conguaglio sono riferiti principalmente alla componente perequazione relativa all'anno 2014, alle componenti passanti UG2 e Bonus Gas e ai crediti per i Titoli di Efficienza Energetica. La voce deve essere correlata ai debiti verso Cassa Conguaglio esposti alla nota 36 "Altre passività correnti";
- a fall of 12,609 thousand euro in amounts due from municipalities for the disposal of assets due to the expiry of concessions. In the year some receivables were received relating to plant handed over in past years and the amounts of which was definitively set and repaid in the year; part of the receivables that were not cashed as of 31.12.2014 has been reclassified among non-current financial assets as the ongoing legal disputes make the reimbursement of these amounts lengthier than expected;
- a decrease by 2,805 thousand euro in prepayments for insurance premiums; during the previous period, part of the premiums for year 2014 was paid during December 2013.

The item is broken down as follows:

Thousands of Euros	31.12.2014	31.12.2013	2014-2013
Other tax assets:			
VAT credit claimed for reimbursement	923	1,068	(145)
Tax asset reimbursements applied for	0	158	(158)
Other tax assets	620	411	210
Other assets:			
Social security and insurance institutions	1,148	1,191	(44)
Grants related to assets	1,722	4,196	(2,475)
Compensation Fund	147,961	105,684	42,277
Municipalities for asset disposal due to expiry of concessions	3,917	16,526	(12,609)
Municipalities	291	291	0
Suppliers	3,114	2,472	643
Sundry	3,073	2,419	654
- Allowance for impairment	(1,115)	(1,115)	0
Accrued income	1	1	0
Prepayments relating to other deferred charges	51	51	(0)
Prepaid promotional expense	37	42	(5)
Prepaid insurance premiums	140	2,945	(2,805)
Other prepayments	1,256	807	450
Total	163,139	137,146	25,993

6.8.2 Liabilities

24. Equity – Euro 640,857 thousand

Equity amounted to 640,857 thousand euro, down by 80,630 thousand euro due to the net effect of two changes:

- decrease in the ordinary dividend pay-out for 89.000 thousand euro;
- increase due to the merger of F2i Reti Italia 2 in 2i Rete Gas (former F2i Reti Italia) and the subsequent change of the controlling interest in the holding of 2i Rete Gas (former F2i Reti Italia) in 2i Rete Gas, for a total amount of 86,608 thousand euro, which in turn can be split in an increase in share capital of 536 thousand euro, a positive change in other reserves of 92,441 thousand euro and a negative one of (6.369) thousand euro in Retained earnings;
- decrease in minority interests by 130,982 thousand euro;
- Increase coming from the writing off of the Hedging reserve following the winding up of the derivative instruments for 43,379 thousand euro;
- Decrease of 2.676 thousand euro, caused by the application of IAS 19 Revised;
- Increase due to Net Profit for 12,041 thousand euro.

Share capital – Euro 3,636 thousand

The share capital at 31 December 2014 amount to 3,636 thousand euro, entirely subscribed and paid up; the item was increased by 536 thousand euro compared to 31.12.2013.

Since 1 August 2014, with fiscal and accounting relevance retroactive to 1 January, the Holding company 2i Rete Gas (former F2i Reti Italia S.r.l.) merged by incorporation F2i Reti Italia 2 S.r.l.. The exchange ratio was determined as 53,6338 euro in the capital of the merging company (2i Rete Gas formerly F2i Reti Italia S.r.l.) for each euro owned in the share capital of the merged company, (F2i Reti Italia 2 S.r.l.) and was calculated considering the estimated results deriving from the ad-hoc report with reference date 31 May 2014 of both companies. The share capital of 2i Rete Gas (former F2i Reti Italia S.r.l.) was therefore increased from 3,100 thousand euro to 3,636 thousand euro.

Other reserves – Euro 640,323 thousand

Quota premium reserve – Euro 351,567 thousand

Created in 2009 at the Capital Increase, during this period was decremented by 11,227 thousand euro following the distribution as dividend which was approved by ordinary shareholders meeting on 30 May 2014.

Legal reserve – Euro 620 thousand

The legal reserve amounted to 620 thousand euro, unchanged compared to 31 December 2013.

Capital transfer reserve – Euro 195,300 thousand

On 27 September 2011 shareholdersi F2i SGR S.p.A and Finavias S. à r.l. paid up as future capital increase a total amount of 195,300 thousand euro. During 2014 this reserve was not changed.

Hedging reserve – 0

The hedging reserve which was created during 2011 following the measurement of the new derivatives outstanding as from October 2011, following the refinancing that was completed in 2014 and brought the ultimate unwinding of all the existent derivatives products, has been zeroed; the amount resulting as of the wind up date was entirely reclassified to profit and loss, for 43,423 thousand euro.

The positive change in Equity has effects on the hedging reserve for 36,953 thousand euro, and, due to change in the controlling interest, retained earnings for 6,426 thousand euro and minorities interests by 43 thousand euro.

Other reserves – Euro 92,836 thousand

Other reserves increased by 92,441 thousand euro compared to 31.12.2013, and the change is fully due to the merger surplus generated by the incorporation of F2i Reti Italia 2 in 2i Rete Gas (former F2i Reti Italia).

The amount of 395 thousand euro, comes from the payment by the General Director of a shareholding financial instrument.

This transaction has been approved by the Board of Directors of the Holding company on 30 October 2012 and is about the assignment of a an option that would allow the General Director to benefit from the possible valuation of the shareholding of the company in 2i Rete Gas, based on the Internal rate of return on the investments (IRR) which will be reached by the shareholders.

In particular, the company granted, upon payment of a sum, a call option that gives the opportunity for the investor to receive 3% of the share capital and can be exercised upon the realization of certain events as, by way of example, the signing of the transfer of a relevant part of the shareholding of 2i Rete Gas, as well as 2i Rete Gas going public etc..

Moreover, this instrument allows:

- Subject to the exercise of the Call Option by the General Director, granting an irrevocable and indivisible put option to be exercised with the shareholders

regarding the entire interest owned by the CEO, and a call option for the Shareholders on the same entire interest;

- In case of relevant transfer, granting to the General Director of an irrevocable put option to the shareholders on the entire call option, and to the shareholder an irrevocable call option on the entire interest owned by the investor..

Retained earnings – Euro (16,019) thousand

Retained earnings totalled a negative amount of 16,019 thousand euro and are lower in comparison with previous period by 26,018 thousand euro due to the combined effect of carried forward consolidated profit as of 31.12.2013 for 54,375 thousand euro, of the distribution of dividends made in 2014 for 77,773 thousand euro, of the increase following the merger of F2i Reti Italia 2 and change in the controlling interest for 57 thousand euro, the decrease for 2.682 thousand euro caused by the application of IAS 19 Revised, which requires that all the changes generated by TFR actualization in light of a change of hypothesis go through profit and loss, thus generating a negative reserve in the controlled company, and some other adjustments for 5 thousand euro.

Profit for the year – Euro 12,041 thousand

Net profit for year 2014, equal to 12,041 thousand euro including minorities interests and 12,021 thousand euro net of these interests, show in respect of 2013 a decrease of 53,924 thousand euro. This results have been achieved notwithstanding the relevant impact of the long term debt restructuring which, as already mentioned in the finance charges paragraph, resulted in the recognition in profit and loss of about 122 million euro of additional financial charges. It is worth reminding that profit is still significantly affected by the tax load caused by the tax additional to IRES called “Robin Hood Tax”, although reduced to 6,5% from previous 10%.

Minority interests – Euro 876 thousand

Minority Interests dropped, compared to 31.12.2013, by 119,394 thousand euro, due to the carried forward profit 2013 positive by 11,589 thousand euro, to change in the controlling interest negative by 130,968 thousand euro, to distribution of dividend for 50 thousand euro, to a positive change thanks to the reclassification to profit and loss of fair value of hedging derivatives for 43 thousand di euro and to other negative changes for 8 thousand euro.

Non-current liabilities

25. Non-current loans (including portions falling due within the next 12 months) – Euro 2,086,923 thousand

The item includes medium-long term financing with a pool of banks whose agent is Banca IMI and that was granted in 2013 to 2i Rete Gas (former F2i Reti Italia) and F2i Reti Italia 2; It includes also three different tranches of bond that were issued during 2014 by 2i Rete gas in light of a global restructuring of its financing structure which aimed to lower its cost of debt through lower all-in interest rates and to consolidate its structure, improving duration and differentiating the reimbursement periods. Hereafter, the table shows the long term financial debt base on currency of origin and amount of interest rate; it is worth noting that the notional value of debt is equal to its book value.

	Balance		Notional amount		Interest rate in force	Effective interest rate
	31.12.2014	31.12.2013	31.12.2014	31.12.2013		
Floating rate debt		1,751,187	0	1,751,187	Eur3+2.10%	4.95%
Floating rate debt	210,000	178,885	210,000	178,885	Eur6+3.25%	5.41%
Interest expense debt	4,132	200				
Bond - Termination 2019	750,000		750,000	0	1.75%	1.89%
Bond - Termination 2020	540,000		540,000	0	1.13%	1.35%
Bond - Termination 2024	600,000		600,000	0	3.00%	3.13%
Borrowing costs (non-current)	(17,200)	(17,266)				
Borrowing costs 2i Rete Gas (F2i Reti Italia srl)	(8)	(2,573)				
	2,086,923	1,910,433	2,100,000	1,930,072		

The bank loan of 2i Rete Gas (former F2i Reti Italia), which originally had a five year duration, was signed on 20 November 2013. On 20 December 2013 the pool of banks provided 2i Rete Gas (former F2i Reti Italia), with 178,885 thousand euro. This increase compared to previous year comes from the merger which required the undertaking by 2i Rete Gas (former F2i Reti italia), of a debt of 31,115 thousand euro which was previously in F2i Reti Italia 2 S.r.l..

This loan is guaranteed by a pledge by 2i Rete Gas (former F2i Reti Italia) shareholders in favor of financing banks on 100% of the quotas of the Company and by pledge over current accounts of the Holding company.

It is worth mentioning that on 2 January 2015 a total prepayment has been done on this loan, so the contractual termination date was voluntary anticipated to the day.

The termination period of such financial liabilities is shown in the following table:

Thousands of euro	Notional amount		1 year	2 - 5 years	After 5 years
	at 31.12.2014	at 31.12.2013			
Non current loans and borrowing					
Loan	210,000	1,930,072	210,000	0	0
Bonds	1,890,000		0	750,000	1,140,000
Total	2,100,000	1,930,072	210,000	750,000	1,140,000

The bond contract, issued for a institutional investors market, does not provide for any covenant.

Together with this bond, a bank loan granted by a pool of 7 primary financial institutions is still existing, but was not utilized as of the reporting date.

The Group has therefore access to a facility for cash needs for an amount equal to 100 million euro and one for capital expenditure for a total of 300 million euro, and to one which is only available after the occurring of the condition precedent by which 2i Rete Gas (former F2i Reti Italia) completes the merge operation with its controlled company, for a total of 210 million euro.

As of 1 January 2015 this condition precedent occurred, so the facility became available.

This financial is subject to certain covenants that the company has to respect from 31.12.2014 in order to keep the granted facilities. Covenants are linked to these entities:

Total Net Debt, RAB (Regulatory Asset Base), EBITDA, Net finance charges.

As of 31.12.2014 all the covenant had been complied with.

26. Post-employment benefit and other benefits to personnel – Euro 39,052 thousand

The Company provides employees with various types of benefits, including post-employment benefits, health service benefits, compensation due instead of notice of dismissal (*Indennità Sostitutive del Preavviso - ISP*) and compensation due instead of energy discount.

The item includes provisions for post-employment benefits, including defined benefit plans and other long-term benefits due to employees by law or contract.

Pursuant to IAS 19, these “defined benefit obligations” are determined using the “Projected Unit Credit Method”, by which the liability is calculated proportionally to the service rendered at the relevant date compared to the presumed total service rendered.

In detail, the plans provided for the following benefits:

Thousands of euro			
	31.12.2014	31.12.2013	2014-2013
Termination benefits	37,168	35,522	1,646
ASEM health service	1,884	1,629	255
	39,052	37,151	1,901

Below is an analysis of the main items.

Post-employment benefits (TFR)

Pursuant to Italian legislation, when the employment relationship ends, the employee has the right to receive post-employment benefits, measured as a portion for each year of service of the gross amount of compensation due for the year divided by 13.5.

Following approval of Law no. 296 of 27 December 2006 (the 2007 Finance Act) and subsequent decrees and implementing regulations, only portions of the post-employment benefits that remain available to the Company are considered as a defined benefit plan, while the accrued portions allocated to supplementary pensions and the treasury fund with INPS (Italian Social Security Agency) are considered as a defined contribution plan.

Health service

Based on the national collective agreement for executives in the industrial sector, executives have the right to health services in addition to those provided by the National Health Service both during employment and the pension period. Asem and FASI, the health service fund set up for Italian electricity industry employees, provide reimbursement of medical expenses.

The main assumptions in the actuarial estimates of employee benefit liabilities are set out below.

	31.12.2014	31.12.2013
Discount rate	1.50%	3.20%
Rate of wage increase	1.50%	3.00%
Tasso di incremento del costo delle spese sanitarie	2.50%	3.00%

27. Provisions for risks and charges – Euro 9.600 thousand

Provisions for risks and charges are used to cover contingent liabilities that could arise from litigation or other disputes, without taking into account the effects of disputes that could have a positive outcome and those for which a possible charge cannot be reasonably quantified.

Provisions for risks and charges (both the current and the non-current portion) increased by 7,599 thousand euro compared to 31.12.2013

The table below shows total provisions for risks and charges (both the current and non-current portions) with a separate column for the current portion.

Thousands of Euros	Of which current portion	Of which non-current portion	Contribution from change in consolidation scope	Accruals	Releases	Utilisation	Other changes	Of which current portion	Of which non-current portion		
	31.12.2013			31.12.2014							
Provisions for litigation and disputes	9,157	-	9,157	-	4,195	(2,569)	(3,018)	-	7,765	-	7,765
Provision for taxes and duties	1,860	-	1,860	-	12	(289)	-	-	1,583	-	1,583
Provisions for stock option costs	-	-	-	-	-	-	-	-	-	-	-
Provisions for disputes with personnel	100	-	100	-	-	-	-	-	100	-	100
Provision for transaction costs with personnel	-	-	-	-	-	-	-	-	-	-	-
Provision for other risks	75	-	75	-	-	-	-	-	75	-	75
Provision for disputes on concessions	13,745	13,745	-	-	4,037	(421)	(156)	-	17,206	17,206	-
Other provisions for risks and charges	29,930	29,930	-	105	26,313	(15,749)	(67)	-	40,532	40,455	77
Total	54,868	43,676	11,192	105	34,557	(19,028)	(3,241)	-	67,261	57,661	9,600
Provisions for leaving incentives	6,722	6,722	-	-	-	-	(4,794)	-	1,928	1,928	-
Total	61,590	50,397	11,192	105	34,557	(19,028)	(8,035)	-	69,189	59,588	9,600

Provisions for risks and charges amounted to 69,189 thousand euro (current: 59,588 thousand euro), broken down as follows:

- “Provisions for litigation and disputes” 7,765 thousand euro to cover contingent liabilities mainly arising from several ongoing litigation cases with customers for harmful events;
- “Provision for taxes and duties”, pari a 1.583 thousand euro, mainly for litigation relating to the tax on the occupation of public space (Tosap), Cosap, the municipal tax on property (ICI), and other local taxes;
- “Provisions for disputes with personnel”, equal to 100 thousand euro, to cover expected charges arising from disputes with personnel of a company acquired in previous years. It was not considered necessary to change it in these financial statements;
- “Provision for disputes on concessions”, 17,206 thousand euro, was increased by 4,037 thousand euro following some requests made by municipalities relating to the review of the agreed concession fees; releases were made for disputes that are no longer current for 421 thousand euro and was used for 156 thousand euro;
- “Other provisions for risks and charges”, equal to 40,532 thousand euro, to cover mainly the risk of change in some tariffs in certain concessions where the gas network is owned by a third party, an estimate of residual costs con international arbitration process and the risk due to the obligation to purchase Energy Efficiency Certificates in the amount set by AEEG for 2014. During the year the provision related to the change in tariffs which was allocated during the last period has been released in the light of recent AEEGSI resolutions.
- “Provisions for charges pertaining to leaving incentives”, 1,928 thousand euro, to cover liabilities that may arise from agreements with the unions signed in 2012 and in 2013 as part of the corporate restructuring process and liabilities that are likely to arise from the leaving incentive scheme created in 2014 and to be terminated during next period.

28. Non-current financial liabilities - 0

This item, now zeroed, included the part of non-current debt arising from the closure of the derivatives connected to the loan outstanding until October 2011. After the financial restructuring, also these debts have been totally paid during the period.

29. Other non-current liabilities – Euro 283.342 thousand

This item increased by 11,212 thousand euro compared to the previous year. The breakdown is set out below:

Thousands of Euros			
	31.12.2014	31.12.2013	2014-2013
Sundry payables	362	362	0
Deferred income for grants related to assets	49,417	51,559	(2,142)
Deferred income for connection fees, property subdivision, plant transfer and grid extension contributions	233,564	220,210	13,353
Total deferred income	283,342	272,131	11,212

The increase in deferred income for connection fees by 13.353 thousand euro, is mostly attributable to contributions received during the year net of the portion recognised in profit or loss to cover operating costs incurred.

Current liabilities**30. Current loans – Euro 7,791 thousand**

During December 2014, 2i Rete Gas factorized “pro-soluto” some commercial receivables to a factoring institution part of a primary banking group.

These amount refer to moneys received by clients on part of these receivables by the end of the period, that were given back to the factor during the first days of 2015.

Thousands of Euros			
	31.12.2014	31.12.2013	2014 - 2013
Current bank debt	7,791		7,791
Totale	7,791	-	7,791

31. Current portion of non-current bank loans –0

As of 31.12.2014 there was no current portion of non-current bank loans.

32. Current portion of non-current provisions and current provisions – Euro 59,588 thousand

The current portion of non-current provisions amounted to 59.588 thousand euro. Comments and details on this item are provided in the section on provisions for risks and charges (note 27).

33. Trade payables – Euro 184,201 thousand

This item includes all trade and operating liabilities whose amount and due date are certain. All the payables arise from Italian transactions.

The item increased by 36,302 thousand euro compared to 31.12.2013.

Changes and breakdown of trade payables to third-party suppliers and group suppliers is set out below:

Thousands of Euros			
	31.12.2014	31.12.2013	2014-2013
Due to suppliers	184,201	147,900	36,302
Total	184,201	147,900	36,302

Payables due to suppliers rose compared to the previous year by 36,302 thousand euro. The balance at 31 December 2014 mainly consists of residual amounts payable to companies to which gas distribution plant construction and maintenance is outsourced, of payables arising from personnel and operating support services, and from the purchase of electricity and gas service for internal use.

34. Income tax liabilities – Euro 23 thousand

On 31 December 2014 income tax liabilities were equal to 23 thousand euro, with a reduction, compared to the previous year of 16,083 thousand euro. The Group shows a positive amount thanks to the evolution of advance payments.

35. Current financial liabilities – Euro 15,611 thousand

Current financial liabilities refer to interest expenses calculated and not yet paid on the three tranches of bonds that were issued during 2014. In the previous period this item included the fair value of derivatives at 31.12.2013, which were unwound in July 2014.

Thousands of Euros

	31.12.2014	31.12.2013	2014-2013
Accrued expenses for interest on current bank loans and borrowings	15,611	381	15,230
Fair value losses on IRSs	0	65,792	(65,792)
Current portion of financial liabilities	0	6,150	(6,150)
Total	15,611	72,323	(56,713)

36. Other current liabilities – Euro 143,182 thousand

Other current liabilities dropped during the period by 26,810 thousand euro, mainly caused by the reduction of “Other liabilities” item, which includes debts towards Cassa Conguagli per il settore elettrico for tariff related amounts.

Other current liabilities are set out below:

Thousands of Euros

	31.12.2014	31.12.2013	2014-2013
Other tax liabilities	6,645	7,241	(596)
Social security contributions	9,821	9,151	671
Other liabilities	111,490	139,161	(27,671)
Accrued expenses	3,636	2,994	642
Deferred income	11,589	11,445	143
Total	143,182	169,992	(26,810)

Other tax liabilities, amounting to 6,645 thousand euro, are set out below:

Thousands of Euros			
	31.12.2014	31.12.2013	2014-2013
VAT liabilities	993	3,951	(2,958)
Employees' withholding taxes	3,397	2,997	400
Withholding taxes	104	107	(4)
Other taxes	2,152	185	1,966
Total	6,645	7,241	(596)

Social security contributions, amounting to 9,821 thousand euro, are set out in the table below:

Thousands of Euros			
	31.12.2014	31.12.2013	2014-2013
Due to INPS	8,428	7,895	533
Due to other institutions	1,393	1,256	138
Total	9,821	9,151	671

Other liabilities, amounting to 111,490 thousand euro, are set out below:

Thousands of Euros			
	31.12.2014	31.12.2013	2014-2013
Due to employees	13,844	10,902	2,942
Due to municipalities for rights and fees	5,296	6,921	(1,626)
Due for connections and other trade payables	3,061	6,426	(3,365)
Users' guarantee deposits and advances	1,641	2,106	(465)
Due to the Compensation fund	72,896	100,345	(27,449)
Other payables	14,753	12,461	2,292
Total	111,490	139,161	(27,671)

Liabilities towards "Cassa Conguaglio" are made for 62,955 thousand euro by liabilities for amounts that are collected through the billing mechanism from traders, and paid to "Cassa Conguaglio", generally once every two months (UG1, UG2, UG3, Re ed Rs) and by a liability of 6,708 thousand euro which arises from Equalization 2009 to and 2010 that are not considered as definitive up to the date, while, for the remaining part, liabilities mainly come from Equalization 2013.

Accrued expense and deferred income, amounting to 15,225 thousand euro, are set out below.

Thousands of Euros

	31.12.2014	31.12.2013	2014-2013
Accrued expenses			
Additional monthly accrual for employees	3,039	2,993	46
Other accrued expenses	596	1	595
Total accrued expenses	3,636	2,994	642
Deferred income			
Deferred income for grants related to assets	2,896	2,217	678
Deferred income for connection fees, property subdivision, plant transfer and grid extension contributions	7,645	7,578	67
Deferred income for property subdivision	1,848	1,826	22
Deferred income for connection fees	5,437	5,458	(21)
Deferred income for plant transfer	360	295	65
Deferred income for TEE	-	-	-
Other deferred income	1,048	1,650	(602)
Total other deferred income	11,589	11,445	143
Total accrued expenses and deferred income	15,225	14,439	785

37. Liabilities held for sale - 0

The liabilities held for sale in 2013 were zero as in the previous year.

6.9 Related party disclosures

Related parties are identified in accordance with the provisions of international accounting standards.

For 2014 the following were defined as related parties:

- F2i SGR S.p.A.,
- Finavias S. à r.l.,
- Axa Infrastructure Holding S. à r.l.
- CBL Distribuzione
- Azienda Energetica Valtellina Chiavenna S.p.A.
- MEA S.p.A.
- Enel Green Power S.p.A.
- Genia S.p.A. in liquidazione

The definition of related parties includes executives with strategic responsibilities, including their close relatives, of the company and of F2i SGR S.p.A., Finavias S. à r.l., Axa Infrastructure Holding S. à r.l., 2i Rete Gas (former F2i Reti Italia S.r.l.), . as well as of the companies controlled directly and/or indirectly by them, jointly controlled companies and those in which the company exercises considerable influence. Executives with strategic responsibilities are those who have direct and indirect power and responsibility for planning, management, and control of company operations, including directors.

The most important trade receivables concern receivables due from “CBL Distribuzione”.

The dividend payment of 89,000 thousand euro, refers to the distribution of profit for 2014 to F2i SGR S.p.A. and Finavias S. à r.l. as deliberated by the shareholders of 2i Rete Gas (former F2i Reti Italia) on 30 May 2014.

Pursuant to art. 2427 bis of the Italian Civil Code, financial and trading transactions between the Company and related parties are part of ordinary operations and always take place at market conditions.

Listed below, all the commercial, financial and other transactions of the Group with its controlling entity and controlled ones.

6.9.1 Trading and other transactions

Year 2014

Thousands of Euros	Trade		Costs	Trade	
	Receivables	Payables		Revenue	
F2i sgr Spa	0	(36)	120		0
Finavias S. à r.l.	0	0	0		0
Axa Infrastructure Holding S. à r.l.	0	0	0		0
CBL Distribuzione	537	(230)	0		502
Azienda Energetica Valtellina Valchiavenna S.p.A.	0	0	0		0
MEA S.p.A	77	0	0		18
Enel Green Power S.p.A.	0	0	0		0
Genia S.p.A.	0	(31)	(226)		0
Total	614	(297)	(106)		520

Year 2013

Thousands of Euros	Trade		Costs	Trade	
	Receivables	Payables		Revenue	
F2i sgr Spa	-	(16)	65		-
Finavias S. à r.l.	-	-	-		-
Enel S.p.A.	-	(716)	-		-
Enel Distribuzione	3,252	(2,778)	6,343		1,941
Enel Energia	110,148	(6,712)	4,747		288,087
Enel Servizi	-	(5,687)	11,416		-
Enel Servizio Elettrico	151	(3)	-		0
Enel Si	-	-	-		-
Enel Green Power	-	-	0		-
Enel Trade	6,410	-	0		13,269
CBL Distribuzione	822	-	0		687
Azienda Energetica Valtellina Valchiavenna S.p.A.	-	-	0		-
MEA S.p.A	59	-	0		19
Total	120,841	(15,912)	22,572		304,003

6.9.2 Financial transactions

Year 2014

Euro	Loan assets	Loans and borrowings	Costs	Revenue	Dividends paid
F2i sgr Spa	0	0	0	0	66,750
Finavias S. à r.l.	0	0	0	0	22,250
Axa Infrastructure Holding S. à r.l.	0	0	0	0	0
CBL Distribuzione	0	0	0	20	0
Azienda Energetica Valtellina Valchiavenna S.p.A.	0	0	0	0	0
MEA S.p.A	136	0	0	0	0
Enel Green Power S.p.A.	0	0	0	0	0
Genia S.p.A. In liquidazione	0	0	1	0	0
Total	136	0	1	20	89,000

Year 2013

Thousands of Euros	Loan assets	Loans and borrowings	Costs	Revenue	Dividends
F2i sgr Spa	-	-	-	-	42,000
Finavias S. à r.l.	-	-	-	-	14,000
Enel S.p.A.	-	-	13,276	-	-
Enel Distribuzione	-	-	-	-	12,146
Enel Energia	-	-	-	-	-
Enel Servizi	-	-	-	-	-
Enel Servizio Elettrico	-	-	-	-	-
Enel Si	-	-	-	-	-
Enel Green Power	-	-	-	-	-
Enel Trade	-	-	-	-	-
CBL Distribuzione	-	-	-	-	-
Azienda Energetica Valtellina Valchiavenna S.p.A.	-	-	-	17	-
MEA S.p.A	136	-	-	-	-
Total	136	-	13,276	17	68,146

Remuneration of directors, board of statutory auditors and executives with strategic responsibilities

Fees for directors and board of statutory auditors of the Parent for 2014, totaling 230 thousand euro (229 thousand euro in 2013), refer to statutory auditors' fees for 179 thousand euro and directors' fees for 51 thousand euro.

38. Contractual commitments and guarantees

Guarantees provided totaled 114,931 thousand euro and referred to guarantees provided to third parties. These guarantees refer to bank guarantees (93,715 thousand euro) and to insurance guarantees (15,867 thousand euro).

These guarantees were granted in favor of maintenance and extension work for the distribution network and participation in tenders for gas distribution service management. Finally, pursuant to paragraph 22-ter of art. 2427 of the Italian Civil Code, there are no agreements which have not been mentioned in the financial statements and that would generate significant effects on the Group's financial statements.

39. Information on business sectors

The Group is managed as a single business unit, mainly operating in the gas distribution business through pipes, thus all the activities of the Group are analyzed by the Top Management as a whole.

The information available to the Top Management in order to take operating decisions is aligned to the consolidated annual report schemes that are shown here, less the effects of the application of IFRIC 12 that are summarized in note 5.c and the related cost paragraph.

6.10 Contingent liabilities and assets

6.10.1 Contingent liabilities

On 29 December 2014 Agenzia delle Entrate – Direzione Regionale della Lombardia (Italian Tax Authority – Regional Head Offices of Lombardia) notified to 2i Rete Gas a verification notice n. TMB033V01196/2014, issued on IRES related to 2009, by which a higher tax has been ascertained for € 882,425, plus interests, and a sanction has been imposed for € 1,058,910.

More in detail, the notice includes the only remark regarding 2009 that had been made in the report of verification written and notified on 17 October 2014 (“PVC”), following a tax verification which started on the Company on 21 January 2014, on fiscal years 2009, 2010 e 2011.

The remark made in PVC regards an alleged lack of deductibility of some expense for interests paid in 2009 and 2010 and relating to a part of the bank debt which, among other things, was destined to dividend distribution to shareholder, and had been signed by 2i rete Gas (at the time called Enel Rete gas) on 15 September 2009. The verification is still ongoing on 2011 fiscal year.

In relation to this remark, the Company, on 12 December 2014, sent a notice according to art. 12, seventh subsection, law of 27 July 2000, n. 212, bringing to the Head Office attention a number of remarks in order to demonstrate that the remark was unfounded, still retaining the right to debate and show documents at the most appropriate time.

The company, while considering plainly unfounded by laws and by facts, as already underlined in said notice, the fiscal remark stated in the PVC, on 15 January 2015 asked for an application of art. 6, d.lgs. 19 June 1997, n. 218.

The dialogue has formally started on 27 January 2015 and it is still ongoing.

6.10.2 Contingent assets

On 10 February 2015, the international Arbitrators that had to decide on some requests for indemnification that were brought forward both by 2i Rete Gas and GDF Suez Italia regarding the acquisition operation of the stake in G6 Rete Gas S.p.A. issued a favorable decision for 2i Rete Gas. This decision is still appealable within 90 days from the day of issuance.

6.11 Credit, liquidity and market risk

6.11.1 Credit risk

The 2i Rete Gas Group provides its distribution services to more than 150 sales companies, the most important of which is Enel Energia S.p.A..

No significant cases of non-compliance by the counterparties were found in 2014.

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.

For the gas distribution through credit lines to external counterparties, the selection of the latter is carefully monitored through assessment of the credit risk associated with them and the requirement for appropriate guarantees and/or guarantee deposits aimed at ensuring an adequate level of protection from the risk of counterparty default.

The credit risk is therefore moderate.

A summary quantitative indication of the maximum exposure to credit risk is provided by the carrying amount of the financial assets gross of the related allowance for impairment.

At 31 December 2014 , the Group's maximum exposure to credit risk amounted to euro 534.5 million (euro 594.1 million at 31 December 2013):

Millions of Euros

	31.12.2014	31.12.2013	2014-2013
Third parties:			
Non-current financial assets	8.0	0.7	7.3
Other non-current assets	23.8	6.5	17.2
Trade receivables	230.0	301.5	(71.5)
Other current financial assets	0.0	0.0	0.0
Cash and cash equivalents	108.5	147.1	(38.6)
Other current assets	164.3	138.3	26.0
Total	534.5	594.1	(59.5)

6.11.2 Liquidity risk

The 2i Rete Gas Group is able, based on the current financial structure, the cash flows expected and set forth in the business plans, to autonomously provide for the financial needs of its ordinary operations and to ensure business continuity.

It is worth reminding that the financing facilities that existed during previous year have been closed and a bond was issued; this not only allowed for a better operating management of financing, but also guaranteed a liquidity source on a longer term and with different termination dates, thus reducing also the risk of refinancing.

Credit facilities granted in July 2014 by a Group of seven primary standing banks, as well as other short term credit lines in order to have a better flexibility of the group in the daily management of liquidity

In order to give a true and fair view of the liquidity risk as required by IFRS 7, hereafter the characteristics of the Group debt.

Contractual termination of financial liabilities at 31 December 2014 are shown hereafter:

Millions of Euros	Due within one year	Due between 2 and 5 years	Due after 5 years
Financial liabilities at 31 December 2014			
Non-current loans and borrowings	214.1	0.0	0.0
Bonds		750.0	1,140.0
Current loans and borrowings	7.8		
Current bank loans and borrowings	0.0		
Other non-current financial liabilities			
Other current financial liabilities	15.6		
Total	237.5	750.0	1,140.0

For comparison purpose, the same table is provided for 2013:

Millions of Euros	Due within one year	Due between 2 and 5 years	Due after 5 years
Financial liabilities at 31 December 2013			
Non-current loans and borrowings	0.2	1,930.1	0.0
Current loans and borrowings	0.0	0.0	0.0
Other non-current financial liabilities	0.0	24.0	0.0
Other current financial liabilities	6.5	0.0	0.0
Total	6.7	1,954.1	0.0

Forecasting of liquidity requirements is carried out based on expected cash flows from ordinary operations.

The non-current debt of 214.1 million therefore refers to the aforementioned loan granted in 2013 to 2i Rete Gas (former F2i Reti Italia) by Banca IMI (Agent), Bank of America, BNP Paribas, Credit Agricole, Mediobanca, Unicredit e Banc of America Securitاس Limited, has a duration of 5 years (termination date 25 September 2018).

On 2 January 2015 this loan was terminated in advance, so the termination has been voluntary anticipated to that day.

As already mentioned, the Group has also since July 2014 some facilities granted for a total of 1,750 million euro by a pool of 7 primary European banks, which were reduced to 610 million during the year following the successful issuance of second and third tranche of bonds.

All of the granted facilities were not utilized as of 31.12.2014.

It should be noted that this loan is subject to a half-yearly check on some financial parameters at consolidated level. At 31 December 2014 these parameters were fully complied with.

The Item "Bond" for a total of 1,890 million euro refers to the three tranches of bond issued by 2i Rete Gas with a termination in 5, 6 and 10 years.

The Group business plan requires a refinancing, ma as of today, given the excellent performance of the Group, the financial rating which was obtained and the ongoing

compliance with the financial covenant agreed with the financing banks, no difficulties are envisaged in completing the refinancing exercise.

The Group constantly monitors the possibilities of optimising its financial structure.

For an in-depth analysis of the features of the non-current loans, see note 25.

6.11.3 Market risk

Market risk, and more specifically interest rate risk, are aimed at obtaining a debt structure which reduces the amount of financial liabilities exposed to change in interest rates and minimizes over time the cost of debt, limiting results volatility.

The Group, since July 2014, unwound all the existing Interest rate swap contracts, pursuing the declared policy through other means.

In particular, the issuance of three different tranches of fixed rate bond during the year allowed to reach both targets (reduction of amount of liabilities affected by change in rates and minimization of sourcing cost) even adding a longer duration of debt and a differentiation of the reimbursement timing of the different tranches.

As at 31 December 2014 the Group was not subject to change in interest rates.

In the table below are shown all the derivatives existing until 16 July 2014, as by termination date.

Thousands of Euros	Notional amount		Due within one year	Due between 2 and 5 years	Due after 5 years
	at 31.12.2014	at 31.12.2013			
<i>Cash flow hedges</i>					
<i>Interest rate swaps</i>					
<i>Total interest rate swaps</i>					

As required by IFRS 7, a summary table with financial assets and liabilities is shown hereafter, along with accounting values and Fair Values. It is worth to remind that the Group does not hold any financial assets that held to maturity (HTM), available for sale (AFS), or held for trading.

Thousands of Euros	Notes	Derivatives	Loans and receivables	Other financial liabilities	Total	Fair value
Financial assets measured at fair value						
					-	
Financial assets not measured at fair value						
Non-current financial assets	15		7,993		7,993	7,993
Other non-current assets	16		23,547		23,547	23,547
Trade receivables	18		213,622		213,622	213,622
Current loan assets	19		957		957	957
Other current financial assets	20		26		26	26
Cash and cash equivalents	21		108,506		108,506	108,506
Other current assets	23		161,654		161,654	161,654
TOTAL ASSETS		-	516,305	-	516,305	516,305
Financial liabilities measured at fair value						
IRS	35	-			-	-
Financial liabilities not measured at fair value						
Non-current loans and borrowings	25-31					
Bonds	25			2,086,923	2,086,923	2,190,763
Financial liabilities for IRS unwinding	28-35			-	-	-
Other non-current liabilities	29			362	362	362
Current loans and borrowings	30			7,791	7,791	7,791
Trade payables	33			184,201	184,201	184,201
Current financial liabilities	35			15,611	15,611	15,611
Other current liabilities	36			124,118	124,118	124,118
TOTAL LIABILITIES		-	-	2,419,006	2,419,006	2,522,846

For comparison purpose, the same table is provided for 2013:

Thousands of Euros	Notes	Derivatives	Loans and receivables	Other financial liabilities	Total	Fair value
Financial assets measured at fair value						
					-	
Financial assets not measured at fair value						
Non-current financial assets	15		676		676	676
Other non-current assets	16		6,226		6,226	6,226
Trade receivables	18		284,304		284,304	284,304
Current loan assets	19		5,669		5,669	5,669
Other current financial assets	20		0		0	0
Cash and cash equivalents	21		147,110		147,110	147,110
Other current assets	23		133,301		133,301	133,301
TOTAL ASSETS		-	577,286	-	577,286	577,286
Financial liabilities measured at fair value						
IRSS	35	65,792			65,792	65,792
Financial liabilities not measured at fair value						
Non-current loan	25-31			1,910,433	1,910,433	2,052,039
Financial liabilities for IRS unwinding	28-35			30,171	30,171	30,913
Other non-current liabilities	29			362	362	362
Current loans and borrowings	30			-	-	-
Trade payables	33			147,900	147,900	147,900
Current financial liabilities	35			381	381	381
Other current liabilities	36			152,658	152,658	152,658
TOTAL LIABILITIES		65,792	-	2,241,904	2,307,696	2,450,043

As to financial assets, not evaluated at fair value, and commercial liabilities and current liabilities, the accounting value is a reasonable proxy of fair value, as shown in the tables.

In order to assess the Fair Value of the bond, the Group used market evaluations as of the reporting date.

6.11.4 Significant events after the reporting period

In February 2015, sentence no. 10 the Constitutional Court (Corte Costituzionale) declared unlawful the so-called "Robin Hood Tax", the IRES tax additional for oil and energy sector, effective from the day after its publication on the Gazzetta Ufficiale, the 12 February 2015.

Taking into account that this statement of unlawfulness was made after the reporting date, and in light of some uncertainty in the application of this sentence, this report was prepared based on law that were effective on 31 December 2014.

Group companies are following the debate on the interpretation in order to give a better representation of this event in 2015.

6.12 Independent auditors' fees

The fees for 2014 recognized to the independent auditors KPMG totalled 496 thousand euro for Audit services (including the fees for the audit of the separate financial statement, the consolidated financial statements of 2i Rete Gas S.p.A. and of the Italcogim Trasporto S.r.l. financial statements, and a limited review of interim consolidated financial statement), as well as 253 thousand euro for fees related to the work carried out pursuant to Resolution no. 11/08 and to 2501-bis, paragraph six, of the Italian Civil Code, for the merger of the Company and F2i Reti Italia S.r.l. and to the work undertaken to issue their opinion pursuant to 2437-ter of the Italian Civil Code following some amendments to the Articles of Association of 2i Rete Gas S.p.A.; 341 thousand euro for other services on voluntary base.

6.13 Management and coordination

After the sale procedure organized in 2009 by Enel Group to sell a majority stake in the share capital of 2i Rete Gas S.p.A., F2i SGR S.p.A. and Finavias S. à r.l. acquired through F2i Reti Italia S.r.l., an amount of shares of 2i Rete Gas equal to 80% of the share capital.

In 2012, as already mentioned, the percentage of share capital of 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.) in 2i Rete Gas S.p.A., rose to 85.104%.

Since 1 August 2014, with fiscal and accounting effect 1 January, thanks to the merger by incorporation of F2i Reti Italia 2 S.r.l. in 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.), the shareholding percentage of 2i Rete Gas S.p.A. (former F2i Reti Italia S.r.l.) in 2i Rete Gas S.p.A. is equal to 99.9%.

It is worth underlining that on 8 October 2010 2i Rete Gas purchased no. 63.920 own shares which at the moment represent 0.044% of the share capital.

After the acquisition by 2i Rete Gas (former F2i Reti Italia) of the majority stake in 2i Rete Gas, the company has filed in the special Albo of the Company register (Registro delle Imprese) the statement by which 2i Rete Gas (former F2i Reti Italia) is the subject that manages and coordinates the Company, as stated in articles 2497 and subsequent of the Italian Civil Code.

2i Rete Gas (former F2i Reti Italia) is not subject to any management or coordination.